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Sup. Ct.

TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1944 1545 46

No. 806 1611

ALMA MOTOR COMPANY, PETITIONER,

vs.

THE TIMKEN-DETROIT AXLE COMPANY AND THE UNITED STATES OF AMERICA

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

PETITION FOR CERTIORARI FILED JANUARY 2, 1945.

CERTIORARI GRANTED FEBRUARY 5, 1945.

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1944

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ALMA MOTOR COMPANY, PETITIONER,

vs.

THE TIMKEN-DETROIT AXLE COMPANY

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[fol. 1]

IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

Excerpts from Appendices to Appellant's Brief

IN UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE

RELEVANT DOCKET ENTRIES

Jan. 23, 1941. Complaint filed; same day summons issued.

May 5, 1941. Answer filed with counterclaim.

May 24, 1941. Plaintiff's reply to defendant's counterclaim, filed.

May 15, 1942. Plaintiff's notice of motion, motion for leave to amend complaint and reply, filed.

May 18-22, 1942. Trial before Kirkpatrick J. at Easton, Penna.

July 13, 1942. Defendant's answer to amendments to plaintiff's complaint, filed. Defendant's proposed Findings of Fact (filed with court no date).

Sept. 23, 1942. Opinion Kirkpatrick J. filed. Deposition of Robert F. Brown and Charles G. Dowd received from Kirkpatrick, J., filed, no date.

Oct. 31, 1942. Transcript of testimony at trial in 5 volumes received from Kirkpatrick, J.

Dec. 2, 1942. Judgment Kirkpatrick, J. that patent No. 2,173,044 is owned by defendant; that plaintiff is licensee under such patent; that plaintiff is estopped to contest the validity of patent; that plaintiff has manufactured and sold and should have paid certain royalties, etc.; that unless parties agree to amount due, Court will appoint a [fol. 2] master; and that three-fourths of taxable costs be paid by plaintiff and one-fourth by defendant other than costs of accounting. Copy of judgment sent to Counsel for both parties. (Judgment dated Nov. 30, 1942).

Dec. 2, 1942. Findings of Facts and Conclusions attached to Judgment filed.

Feb. 27, 1943. Notice of appeal by defendant filed. Notice to Berl and 3rd C. C. A.

May 12, 1943. Defendant's statement of points to be relied upon, filed.

May 12, 1943. Defendant's designation of record on appeal filed.

May 13, 1943. Order re sending original exhibits with record on appeal filed.

[fol. 3] IN UNITED STATES DISTRICT COURT

COMPLAINT—Filed January 23, 1941

To the Honorable the Judges of the United States District Court in and for the District of Delaware:

The Timken-Detroit Axle Company for its complaint against the defendant alleges as follows:

Count I

1. That jurisdiction is founded on diversity of citizenship and amount.

Plaintiff is a corporation incorporated under the laws of the State of Ohio, and defendant is a corporation incorporated under the laws of the State of Delaware. The matter in controversy exceeds, exclusive of interest and costs, the sum of Three Thousand Dollars.

2. That this count is an action for a declaratory judgment pursuant to the Federal Declaratory Judgment Act of June 14, 1934, Amended, (Section 274-d Judicial Code; U. S. C., Title 28 Section 400) and for damages due to defendant surreptitiously acquiring a patent containing invalid claims upon an application of Frank W. Ruggles and Charles D. Smith, Serial No. 7,751, filed February 23, 1935, in violation of an agreement with plaintiff and one Arthur W. Herrington in effecting a settlement of interference No. 73,919 in the United States Patent Office.

3. That the plaintiff is the owner of an application of Beverly W. Keese for United States Letters Patent for "Power Transmitting Mechanisms", Serial No. 34,621, filed August 3, 1935, said application having been assigned to the plaintiff by an assignment of August 1, 1935, recorded in the United States Patent Office on May 9, 1938 in Liber X-174, at page 5.

4. That on or about February 12, 1937 said application became involved in interference No. 73,919 with said appli-
[fol. 4] cation of Ruggles and Smith Serial No. 7,751, and with an application of said Arthur W. Herrington, Serial No. 7,976, filed on February 25, 1935. The Ruggles et al application was assigned by mesne assignments of record to the Alma Motor Company.

5. That subsequent to the declaration of interference No. 73,919, the parties thereto located certain prior art comprising prior patents, prior publications and prior uses which in the opinion of all parties rendered certain of said interference counts unpatentable, and rendered patentability of any common subject matter of the interfering applications doubtful.

6. Realizing the futility of expending large sums of money in contesting and litigating said interference No. 73,919, in view of the doubtful validity of any patentable claims, the parties met and agreed that each would cancel the clearly unpatentable claims from their applications, that they would determine the priority of the subject matter of the interference counts upon inspection of evidence submitted by each party, and concede priority in accordance with the proofs, that the successful party would bring said prior art to the attention of the Patent Office and prosecute his application in the light of said prior art to obtain such protection as the prior art, in the opinion of the Patent Office, would permit, and that the successful party would grant the unsuccessful parties a non-exclusive license under all patent claims finally issued by the Patent Office.

7. Pursuant to this agreement each party cancelled the clearly unpatentable claims from his application, it was determined that the parties Ruggles and Smith were entitled to priority on the subject matter of the interfering counts, the parties Keese and Herrington conceded priority to the parties Ruggles and Smith, and said Interference No. 73,919 was terminated on June 18, 1938 by an award of priority to Ruggles and Smith.

[fol. 5] 8. At the same time and pursuant to the aforementioned agreement the Alma Motor Company as owner of the Ruggles and Smith application on May 26, 1938 granted the plaintiff, The Timken-Detroit Axle Company,

a non-exclusive license under said application Serial No. 7,751 and any patent issued thereon, and plaintiff agreed to pay specified royalties on transfer cases made and sold by it, embodying improvements invented by said Ruggles and Smith and were dominated by claims obtained in said Ruggles and Smith application, from the date of issuance of a patent on said application as will appear from the instrument of license, or duly authenticated copy thereof, profert of which is here made as this Court may require.

9. That notwithstanding said agreement of the parties and settlement of Interference No. 73,919, in accordance with the agreement of said parties, defendant, Alma Motor Company, without the knowledge or consent of plaintiff, failed to advise the Patent Office of said prior art, and in violation of said agreement, filed an amendment after the termination of said interference making only formal changes in its application Serial No. 7,751, obtained allowance of the claims of said application upon inconsequential changes in form only, and on September 12, 1939 obtained Letters Patent No. 2,173,044 containing twelve claims.

10. That since the issuance of said patent, plaintiff has been informed and believes that the Patent Office did not know of said prior art and, upon information and belief alleges that the Patent Office would not have issued said Letters Patent No. 2,173,044 with claims of the prima facie scope of those contained in said patent if it had known of said prior art, and plaintiff therefore alleges that all of the claims of said letters patent are invalid in view of the prior art.

11. Plaintiff further alleges that prior to and since the issuance of said Letters Patent, it has manufactured and [fol. 6] sold various designs of transfer cases for transmitting power to the four wheels of a power driven vehicle and has made returns and paid royalties in accordance with said license only on such of said transfer cases which, in its opinion based on the art known to it at the times of payment, embodied improvements invented by said Ruggles and Smith, and which are defined by the terms of the claims of said Letters Patent No. 2,173,044.

12. That the "transfer cases" manufactured by the plaintiff, The Timken-Detroit Axle Company, since the issuance of said Patent No. 2,173,044 on September 12, 1939,

are shown in the drawings, copies of which have been supplied to defendants, profert of which is here made as this Court may require, and which are identified by the following numbers, to wit:

A-334	A-492	A-605	A-635
A-359	A-497	A-612	A-638
A-378	A-582	A-613	A-678
A-388	A-588	A-624	A-693
A-418	A-595	A-626	SKT 6338 T-32-13-1 and 2
A-456	A-596	A-631	
A-468	A-604	A-632	

T-2-B-7-5	(A 497)	T-43-V-1	(A 626)
T-2-B-27-1	(A 572)	T-52-9	(A 469)
T-2-B-3-3	(A 675)	T-53-C	(A 512)
T-7-E-3-3	(A 456)	T-53-D	(A 512)
T-7-E-3-4	(A 456)	T-61-A	(A 538)
T-7-E-3-5	(A 456)	T-77-3-1	(A 624)
T-7-F-3-2	(A 664)	T-77-3-2	(A 624)
T-7-Q-3	(A 664)	T-77-3-A	(A 624)
T-7-R-3	(A 664)	T-77-C-3	(A 624)
T-8-1		T-80	(A 640)
T-25-B	(A 329)	T-32-13-7	(A 613)
T-43-P	(A 626)		

13. That notwithstanding the foregoing circumstances and the specific wording of said license defendant contended [fol. 7] and still contends that all of said transfer cases manufactured and sold by plaintiff that come within the literal terms of the claims of said Letters Patent, are subject to the royalty provisions of said license.

14. That since issuance of Letters Patent No. 2,173,044 and since the controversy set forth in the preceding paragraphs of this Count arose, defendant, without the knowledge and consent of plaintiff filed an invalid disclaimer attempting to modify claim 10 of said patent and altering and depreciating, if not wholly destroying the validity of said patent, the protection of which constitutes the full consideration passing to plaintiff under said license whereby plaintiff's rights under said license are seriously jeopardized.

15. Because of the said controversy as to royalties due defendant under said license agreement, plaintiff had a fur-

ther search of the prior art made in which still further pertinent prior art not known to it at the time of the settlement of said Interference No. 72,919 was found, and plaintiff is now informed and believes that it is not obligated under the terms of said license to pay royalties on any of the transfer cases manufactured and sold by it, and that the claims of Letters Patent No. 2,173,044 are invalid for the following reasons:

a. That Ruggles and Smith are not the original inventors of the alleged improvements therein described and claimed, because said alleged improvements and all material and substantial parts thereof were previously patented or described in the following Letters Patent of the United States, to wit:

826,365	Schmidt	July 17, 1906
958,242	Falk	May 17, 1910
1,075,650	Huff	Oct. 14, 1913
1,186,648	Chaquette	June 13, 1916
1,253,670	Church	Jan. 15, 1918

[fol. 8]

1,269,944	Leonard	June 18, 1918
1,273,631	Leonard	July 23, 1918
1,296,216	Reif	Mar. 4, 1919
1,323,501	Thomas	Dec. 2, 1919
1,523,613	Sharpneck	Jan. 20, 1925
1,629,518	Martin	May 24, 1927
1,812,801	us	June 30, 1931
1,927,276	Bryan	Sept. 19, 1933
1,976,071	Hoffman	Oct. 9, 1934

b. That prior to the alleged invention by said Ruggles and Smith, the alleged improvements therein described and claimed, and all material and substantial parts thereof, had been known to or made and used by others in the United States, and particularly as embodied in the following:

1. The prior public use and sale to the United States Government in 1931 of military trucks having the transfer case illustrated and described on page 52 of the July 11, 1931 issue of "Automotive Industries".

2. The prior public use and sale of four wheel drive vehicles, known as the "Franklin chassis job" built late

in 1931, and assembled and operated by the United States Government for military purposes at Camp Holabird early in 1932, and embodying transfer cases built by the Wisconsin Axle Company. These transfer cases are shown in prints T-9; T-11 of the Wisconsin Axle Company, dated November 13, 1931, and this prior use was brought to the attention of defendant in the negotiations for the settlement of said Interference No. 73,919.

3. The prior public use and sale of the so-called "White Scout Car" by the United States Government for military purposes at Camp Holabird, and which incorporated a concentric drive type transfer case, designed by the Brown-Lipe Division of the Spicer Manufacturing Corporation in the spring of 1933, and shown in Print No. 13138 dated April 24, 1933. This transfer case was built for the United [fol. 9] States Government in the Fall of 1933 and arrived at Camp Holabird where it was installed in the "White Scout Car" in November 1933. This prior use was brought to the attention of the defendant in the negotiations for the settlement of said Interference No. 73,919.

c. That in view of the state of the art at the time of the alleged invention by Ruggles and Smith, the claims of said Letters Patent are devoid of substantial novelty and invention.

d. That in view of the filing of the invalid disclaimer as set forth in paragraph 14 hereof said Letters Patent is invalid and void in part, or in its entirety.

16. That the plaintiff has been irreparably damaged by the failure of defendant, Alma Motor Company, to notify the Examiner in charge of the Ruggles et al. application of the aforementioned prior public uses and obtain a patent containing valid claims and its unauthorized action in filing said disclaimer, as a result of which the plaintiff, The Timken-Detroit Axle Company, may be deprived of the benefits which would otherwise accrue to it under the aforementioned license.

Wherefore the plaintiff prays that the Court adjudge:

First: That the claims of said Letters Patent No. 2,173,044 are invalid or of invalid scope.

Second: That the claims of Letters Patent No. 2,173,044 if valid are of such narrow scope that they do not dominate the trafisfer cases manufactured by the plaintiff.

Third: That the plaintiff is not obligated to pay royalties to the defendant under any proper interpretation of said license agreement, on any of the transfer cases now being manufactured and sold by the plaintiff.

Fourth: That plaintiff have judgment against defendant in the sum of $50,000.

[fol. 10] *Fifth:* That defendant may be decreed to pay the costs, charges and disbursements of this count I hereof.

Sixth: That the plaintiff may have such other and further relief in the premises as this count I may require and the Court may deem meet and just.

Count II

17. That jurisdiction is founded on the existence of a question arising under section 24 of the Judicial Code, Amended, paragraph 7; U. S. C. Title 28, Section 41, Paragraph 7, as hereinafter appears.

18. That this count is an action for a declaratory judgment pursuant to the Federal Declaratory Judgment Act of June 14, 1934, Amended (Section 274-d Judicial Code; U. S. C. Title 28 section 400).

19. That on September 12, 1939 United States Letters Patent No. 2,173,044 was issued to Frank W. Ruggles and Charles D. Smith for an invention in "Auxiliary Transmission Mechanism for Four-Wheel-Drive Automotive Vehicles", after due proceedings in the Patent Office as more fully set forth in paragraphs 3 to 9 of Count I hereof.

20. That, upon information and belief, plaintiff alleges that had the Patent Office been informed of the prior art known to the parties to Interference No. 73,919 it would not have allowed the said Ruggles and Smith application to issue as a Letters Patent with claims of the scope contained herein, if it would have issued said Letters Patent at all.

21. That since the issuance of said Letters Patent No. 2,173,044 on September 12, 1939 the plaintiff has manu-

factured, used and sold transfer cases as set forth in paragraph 11 of Count I hereof which, it is charged by the defendant, the Alma Motor Company, infringe the claims of said Letters Patent.

[fol. 11] 22. That said Letters Patent No. 2,173,044 is invalid and void for the reasons heretofore set forth in paragraphs 14 and 15a to 15d of Count I hereof.

Wherefore the plaintiff prays that the Court adjudge:

First: That the Ruggles et al. patent No. 2,173,044 is invalid.

Second: That if the Court determines that the Ruggles et al. patent is valid, the claims thereof when validly interpreted do not cover and are not infringed by the transfer cases manufactured, used, and/or sold by the plaintiff.

Third: That the defendant may be decreed to pay the costs, charges and disbursements of this Count II hereof.

Fourth: That the plaintiff may have such other and further relief in the premises as this Count II may require and the Court may deem meet and just.

William A. Strand, Counsel for Plaintiff, 1001 Fifteenth Street, N. W., Washington, D. C.

E. Ennalls Berl, Solicitor for Defendant, Delaware Trust Building, Wilmington, Delaware.

[fol. 12] In United States District Court

Answer and Counter-Claim—Filed May 5, 1941

Defendant moves the court to dismiss the complaint on the ground that there is no equity in the plaintiff as shown therein.

Defendant Alma Motor Company, for answer to matters set forth in the complaint, says:

Count I

1. For answer to paragraph 1, defendant admits the allegations therein.

2. For answer to paragraph 2, defendant denies the same.

3. For answer to paragraph 3, defendant denies that the plaintiff is the owner of an application as set forth in said paragraph. It admits that plaintiff formerly was the owner of such an application.

4. For answer to paragraph 4, defendant admits the allegations contained therein.

5. For answer to paragraph 5, defendant admits the allegations of said paragraph.

6. For answer to paragraph 6, defendant denies that the successful party would bring said prior art to the attention of the Patent Office and prosecute his application in the light of said prior art, as alleged in said paragraph. Further answering said paragraph it admits that there were negotiations with reference to settlement of various claims under interferences and admits that Alma Motor Company, defendant, agreed to, and did, grant a non-exclusive license to the plaintiff under all patent claims issued by the Patent Office.

7. For answer to paragraph 7, defendant denies that pursuant to an agreement as alleged by plaintiff in paragraph 6 [fol. 13] it did anything, but it admits that pursuant to its agreement the Parties Keese and Herrington conceded priority to the parties Ruggles and Smith, and that said interference No. 73,919 was terminated on June 18, 1938 by an award of priority to Ruggles and Smith.

8. For answer to paragraph 8, defendant admits the same.

9. For answer to paragraph 9, defendant denies the allegations thereof.

10. For answer to paragraph 10, defendant denies the allegations thereof.

11. For answer to paragraph 11, defendant admits that prior to and since the issuance of said letters patent plaintiff has manufactured and sold various designs of transfer cases for transmitting power to the four wheels of a power driven vehicle, and has made returns and paid royalties on a small number of said transfer cases; and for further answer, defendant says that all of the transfer cases manufactured and sold by plaintiff have been manufactured so as to embody the principles and features of said United

States Letters Patent No. 2,173,044; that plaintiff has arbitrarily refused to pay royalties on such transfer cases, and that at the same time it has manufactured under said patent, and claims to have rightfully manufactured under said patent by reason of the license agreement between the parties.

12. For answer to paragraph 12, defendant admits that some of the transfer cases manufactured by the plaintiff since the issuance of said Patent No. 2,173,044 are shown in the drawings listed in said paragraph 12. Defendant has no knowledge as to whether plaintiff has made other transfer cases falling within the claims of said patent sufficient for defendant to form a belief concerning the same and therefore neither admits nor denies the allegations of [fol. 14] said paragraph 12 but leaves the plaintiff to its proof thereon.

13. For answer to paragraph 13, defendant admits the allegations thereof.

14. For answer to paragraph 14, defendant denies the allegations thereof.

15. For answer to paragraph 15, the defendant denies each and every allegation of said paragraph and its subdivisions, as pleaded. For further answer defendant says that the plaintiff is a licensee of the defendant under the terms of a license agreement dated the 16th day of May, 1938; that said license agreement covers a license under said patent; that said patent has never been declared invalid in any part thereof; that said license agreement is in full force and effect and that said licensee has not at any time cancelled said license agreement but is and was at the time of the commencement of this action exercising all its rights and privileges under said license agreement, and that said plaintiff wrongfully withholds the payment of royalties thereunder. Defendant further shows that all of the information contained in the allegations of paragraph 15a and subdivisions 1, 2 and 3 of sub-paragraph b of paragraph 15, and the allegations of sub-paragraph c of paragraph 15 was known to and in possession of the plaintiff before and at the time of the making of said license of May 16, 1938.

16. For answer to paragraph 16, defendant denies the allegations thereof.

Count II

17. For answer to paragraph 17, defendant denies the allegations thereof.

18. For answer to paragraph 18, defendant denies the allegations thereof.

[fol. 15] 19. For answer to paragraph 19, defendant admits the allegations thereof.

20. For answer to paragraph 20, defendant denies the allegations thereof.

21. For answer to paragraph 21, defendant admits the allegations thereof.

22. For answer to paragraph 22, defendant denies the allegations thereof.

Wherefore, the plaintiff prays that said complaint may be dismissed with costs for the defendant, for failure to state a claim upon which relief can be granted.

Counter-Claim

The defendant, Alma Motor Company, for a counter-claim against plaintiff The Timken-Detroit Axle Company, says:

1. That on May 16, 1938, by terms of a license agreement on that day executed by the parties to this suit, it granted a license to manufacture articles embodying principles and features of United States Letters Patent No. 2,173,044; that by the terms of said license agreement the plaintiff had manufactured during the pendency of the application for said patent; that it was so manufacturing on the date of issue of said patent, to-wit, September 12, 1939, and has continuously so manufactured, and is now so manufacturing.

2. That notwithstanding the fact that plaintiff has manufactured under said license agreement as set forth in the preceding paragraph hereof, plaintiff has refused to pay, and now refuses to pay, although often requested so to do, the royalties or license fees provided for in said contract

of May 16, 1938, to be paid, to the damage of the plaintiff to the amount of Thirty-five Thousand ($35,000.00) Dollars.

[fol. 16] Wherefore, defendant and cross-plaintiff prays judgment in the amount of Thirty-five Thousand ($35,000) Dollars, and further prays that the defendant and cross-plaintiff may have such other and further relief as to the court seems meet and just.

Hugh M. Moris, Attorney for Defendant, Dupont Bldg., Wilmington, Delaware. Howard Streeter —Wiley, Streeter & Ford, Attorney for Defendant, 1925 Dime Bank Bldg., Detroit, Michigan.

Receipt of a copy of the foregoing Answer is hereby acknowledged this 5th day of May, 1941.

E. Ennalls Berl, Attorney for Plaintiff.

[fol. 17] In United States District Court

Reply of Plaintiff to Answer—Filed May 24, 1941

Plaintiff, The Timken-Detroit Axle Company, for its reply to the matters set forth in the Answer and Counterclaim says:

Reply to Defendant's Answer

1. For its reply to paragraph 11 of the answer, plaintiff denies that all of the transfer cases manufactured and sold by it embody the principles and features of said United States Letters Patent No. 2,173,044; denies that it has arbitrarily refused to pay royalties on all transfer cases made by it; and alleges that it has paid all royalties on transfer cases made by it as required by said license agreement, and that it has manufactured under and claimed to have rightfully manufactured under said patent only such transfer cases made by it as are within the scope of said agreement.

2. For its reply to paragraph 15 of the answer, plaintiff admits that it is a licensee of the defendant under the terms of a license agreement dated May 16, 1938, admits that the agreement covers a license under said patent, denies that the patent referred to in said license has never been declared invalid in any part, denies that said license

agreement is in full force and effect because of the admitted invalidity of at least certain of the claims of said patent, denies that plaintiff is and was at the time of commencement of this action exercising all its rights and privileges under said license agreement, and denies that plaintiff wrongfully withholds the payment of royalties thereunder; and plaintiff alleges that said license agreement by its terms requires plaintiff to pay royalties from and after the date of issue of said Letters Patent on "Transfer Cases" made by plaintiff which embody improvements in Auxiliary Transmission for Four Wheel Drive Automotive Vehicles invented by said Frank W. Ruggles and Charles D. Smith, [fol. 18] and which are disclosed in said Letters Patent and dominated by a claim or claims thereof, that it has paid all royalties due and payable under the terms of said agreement; and plaintiff further alleges that defendant has declared the invalidity of said patent at least in part by its improper disclaimer filed December 4, 1940.

Reply to Counter-Claim

3. For reply to paragraph 1 of the counter-claim, plaintiff admits the execution on May 16, 1938 of a license agreement between the parties, denies manufacturing under the terms of said license agreement during the pendency of the application for said patent and that it was so manufacturing on the date of issuance of said patent, to-wit, September 12, 1939, and that it has continuously so manufactured and is now so manufacturing; and alleges that plaintiff manufactured certain transfer cases under certain of the terms of said license during the pendency of the application for patent and that it was so manufacturing on the date of issuance of said patent and that it has continuously so manufactured and is now so manufacturing; and plaintiff further alleges that the parties to said agreement, ever since issuance of said patent, have been in disagreement as to the terms of said license, particularly as to the provisions under which plaintiff agreed to pay royalties.

4. For reply to paragraph 2 of the counter-claim, plaintiff denies having manufactured under said license agreement as alleged, denies that it has refused to pay, or now refuses to pay, any royalties or license fees provided for in said contract of May 16, 1938, and denies that defendant

has been damaged to the amount of Thirty-five Thousand (35,000.00) Dollars or any amount whatsoever by any action of the plaintiff, and alleges that the agreement of May 16, 1938 bound plaintiff to pay royalties only under certain limited conditions as set forth in paragraph 2 of [fol. 19] this reply, and that plaintiff has paid all royalties due pursuant to said agreement and is now willing to pay any royalties or license fees as required by this agreement which may hereafter become due.

First Defense to Defendant's Counter-Claim

5. For a further defense to defendant's counter-claim, plaintiff alleges that the agreement of May 16, 1938 was entered into pursuant to the settlement of an interference as alleged in paragraphs 6, 7, and 8 of the complaint and prior to the issuance of said Ruggles and Smith Patent No. 2,173,044 and without knowledge of the scope of the claims which might subsequently be obtained from the Patent Office, that the provision providing for the payment of royalties by plaintiff was limited, therefore, to require the payment of royalties only on "Transfer Cases" made by plaintiff which embodied improvements in Auxiliary Transmission for Four Wheel Drive Automotive Vehicles actually invented by said Frank W. Ruggles and Charles D. Smith, and which are disclosed in said Letters Patent and dominated by a claim or claims thereof and that in view of the prior art patents as pleaded in paragraph 15a of the complaint and the prior public uses as pleaded in paragraph 15b of the complaint the claims of said Ruggles et al. Letters Patent are wholly invalid or of such limited valid scope that none of the "Transfer Cases" made by plaintiff are dominated by said claims and for this reason no royalties are due defendant from plaintiff under the terms of said agreement.

Second Defense to Defendant's Counter-Claim

6. For a further defense to defendant's counter-claim, plaintiff alleges that defendant has declared the invalidity of said patent at least in part by its improper disclaimer filed December 4, 1940, that by reason of said invalid disclaimer said Letter Patent No. 2,173,044 is invalid and [fol. 20] plaintiff's obligation to pay royalties or license fees

under the terms of said contract of May 16, 1938 has been extinguished.

Wherefore, the plaintiff prays that said counter-claim may be dismissed with costs to the plaintiff.

E. Ennalls Berl, Attorney for Plaintiff, Delaware Trust Building, Wilmington, Delaware.

Of Counsel: William A. Strauch, Strauch & Hoffman, 1001 Fifteenth Street, N. W., Washington, D. C.

Service of a copy of the foregoing Reply is hereby acknowledged this 23rd day of May, 1941.

Hugh M. Morris, Attorney for Defendant.

[fol. 21] In United States District Court

Amendment to Plaintiff's Complaint and Reply—Filed May 15, 1942

Now comes plaintiff, by its attorneys, saving and reserving to itself all manner and benefit of its complaint and its reply to defendant's answer and counter-claim heretofore filed herein and not abandoning the same, and hereby amends its complaint and reply by correcting inaccuracies therein and adding the following further defenses to those of record:

Amendment to Complaint

23. Plaintiff, for its further complaint, alleges that defendant was, by defendant's own admission, aware on December 3, 1940 that Frank W. Ruggles and Charles D. Smith were not the first inventors of the subject matter of claim 10 of Letters Patent No. 2,173,044 in suit; that defendant was aware on December 3, 1940 that said claim 10 was invalid over the patent to Church No. 1,253,670; that, in a letter dated December 3, 1940, defendant represented to plaintiff that a disclaimer altering the scope of said claim 10 had been filed in the Patent Office; that defendant has never filed any disclaimer in Letters Patent No. 2,173,044 in suit; that defendant is now holding out to the public that said claim 10 is valid; that, defendant, by reason of its unreasonable neglect and delay and failure to file a disclaimer as to claim 10 in Letters Patent No. 2,173,044, has

deprived itself of the benefits of R. S. 4917, so that Letters Patent No. 2,173,044 is void in law; and that plaintiff, through defendant's fault, has lost all possible benefits and rights under the license set forth in paragraph 8 of Count I of the Complaint herein.

Amendment to Reply

7. For a further defense to defendant's counter-claim, plaintiff alleges that by reason of defendant's unreasonable [fol. 22] neglect and delay and failure to file a disclaimer as to claim 10 of Letters Patent No. 2,173,044 after defendant became aware that said claim 10 was invalid, said Letters Patent No. 2,173,044 is wholly invalid and void in law, and plaintiff's obligation to pay royalties or license fees under the terms of said contract of May 16, 1938 has been extinguished.

Wherefore plaintiff prays that Letters Patent No. 2,173,044 be adjudged by this Honorable Court to be wholly invalid, void and unenforceable against plaintiff.

William A. Strauch, Counsel for Defendant, 1001 Fifteenth Street, N. W., Washington, D. C.

Strauch & Hoffman, of counsel, 1001 Fifteenth Street, N. W., Washington, D. C.

[fol. 23] In United States District Court

Defendant's Answer to Amendments to Plaintiff's Complaint—Filed July 13, 1942

Defendant, Alma Motor Company, for answer to matters set forth in the Amendments to Plaintiff's Complaint, says:

23. For answer to Paragraph 23, defendant admits that it has not filed any disclaimer of any claim in the Ruggles and Smith Patent No. 2,173,044, and admits that it now represents and has always represented that all claims of the Ruggles and Smith patent-in-suit are good and valid in law, but denies each and every of the other allegations contained therein.

24. For answer to Amendments to Plaintiff's Pleadings made in open court on the last day of the hearing, May 22,

1942, (Rec. pp. 785, 786) defendant denies each and every of the allegations therein contained, and specifically denies that the Ruggles and Smith invention was completely described in the typewritten prospectus concerning which the witness Armstrong testified; denies that such typewritten prospectus was such a publication of invention by defendant's predecessor as to invalidate the invention described and claimed in the Ruggles and Smith patent-in-suit; denies that the testimony of the witness Kysor is derogatory of or harmful to the invention described and claimed in the Ruggles and Smith patent-in-suit; denies that there was any "rule" announced by the case of Muncie Gear Works, Inc. v. Outboard Marine & Mfg. Co. et al., 86 Law Ed. 740, that relates to the wording of the specification and claims of Letters Patent, and asserts that the specification and claims of the Ruggles and Smith patent-in-suit describes and claims the invention in language approved by the Patent Office and in full accord with the requirements of Revised Statute 4888.

[fol. 24] Wherefore, the defendant prays that said Amended Complaint may be dismissed with costs to defendant.

S. Samuel Arsht, Attorney for Defendant, DuPont Building, Wilmington, Delaware.

George Rex Frye, Counsel for Defendant, 1403 Ford Building, Detroit, Michigan.

Receipt of a copy of the foregoing Answer to Amendments to Plaintiff's Complaint is hereby acknowledged this 13th day of July, 1942.

E. Ennalls Berl, Attorney for Plaintiff.

[fol. 25] In United States District Court

Proposed Findings of Fact and Conclusions of Law Submitted by Plaintiff

Findings of Fact

1. Plaintiff, The Timken-Detroit Axle Company, is a corporation of the State of Ohio.

2. Defendant, Alma Motor Company, is a corporation of the State of Delaware.

3. The subject matter involved in Count I of the complaint exceeds $3,000.00.

4. Count II of the complaint raises a substantial question under the patent laws.

5. The Ruggles and Smith application Serial No. 7,751 (for the patent in suit), as originally filed, did not claim the subject matter of the interference, which included claims 5 to 12 of patent 2,173,044 in suit, except in combination with the clutch for disconnecting the front wheels.

6. The first time that the subject matter of claims 5 to 12 was alone claimed in the Ruggles and Smith application was in the amendment of May 23, 1936.

7. Plaintiff, defendant and one Arthur W. Herrington settled Interference 73,919 which was declared by the Patent [fol. 26] Office on February 12, 1937 and involved the application of plaintiff's assignor, Beverly W. Keese and an application of Arthur W. Herrington, by agreements and understandings reached at a conference at the Book-Cadillac Hotel in Detroit.

8. Pursuant to these agreements and understandings, all parties involved in Interference 73,919 disclaimed the interference counts anticipated by the 1931 use of the two-speed, Wis. T-9, auxiliary transmission or transfer case of PX-82.

9. In addition to the Wisconsin T-9 use, the representatives of the plaintiff and defendant, at the conference at the Book-Cadillac, considered the transmission of the Church patent 1,253,670 of PX-4, the two-speed auxiliary transmission or transfer case of the Automotive Industries Publication, PX-54, the two-speed, auxiliary transmission or transfer case of Spicer print 04501-SKT-08869, PX-107, and the 1933 use of the two-speed Spicer, auxiliary transmission or transfer case of PX-28.

10. The Army Engineers at the Quartermaster Base at Holabird Quartermaster Depot, Baltimore, Maryland, used the construction of the Automotive Industries Publication, PX-54, as early as 1925, designed the Wisconsin T-9 construction of PX-82 late in 1930 or early in 1931 and used it late in 1931 and suggested the Spicer construction of PX-28, built in November, 1933, in April, 1933.

11. Claims 1 to 12 of the patent in suit purport to define improvements in two-speed, auxiliary transmissions or transfer cases.

[fol. 27] 12. The Wisconsin T-9, two-speed, auxiliary transmission or transfer case of PX-82 embodies all of the alleged improvements defined in claims 1 to 12 of patent 2,173,044 in suit although the T-9 construction may not be as simple and compact as the construction shown in the patent.

13. The Spicer, two-speed, auxiliary transmission or transfer case of PX-28 embodies all of the elements defined by claims 1 to 12 of patent 2,173,044 in suit, or their structural equivalents, and operates in substantially the same manner as the patented construction. Detailed differences in the arrangement of the gears and the speed changing clutch are not specified in the claims.

14. The two-speed, auxiliary transmission or transfer case shown in the Automotive Industries Publication of PX-54 is equally as simple and compact and employs gearing located in the same manner as the construction defined by claims 5 to 12 of patent 2,173,044 in suit and accomplishes the same result as the structure defined by these claims.

15. Plaintiff's representatives at the Book-Cadillac conference asserted that the remaining counts of Interference 73,919, claims 5 to 12 of patent 2,173,044 in suit, were anticipated or failed to define a patentable improvement over the prior art and uses then under consideration and in particular relied upon the Spicer use of PX-28.

16. Defendant's representatives at the Book-Cadillac conference asserted that the remaining counts of Interference 73,919, claims 5 to 12 of patent 2,173,044 in suit, were not [fol. 28] anticipated by the Spicer use of PX-28 or the other prior art then under consideration and that the subject matter of these counts or claims defined patentable improvements over this alleged prior art.

17. Defendant's representatives at the Book-Cadillac conference asserted that the Spicer use of PX-28, even if prima facie sufficient to invalidate the remaining counts, claims 5 to 12 of patent 2,173,044 in suit, was not in fact

a legal bar since the Ruggles and Smith dates of invention antedated this use.

17 (a). Defendant did not bring the prior art known to it after the Book-Cadillac Conference, and unknown to the Patent Office, to the Examiner's attention before patent 2,173,044 in suit issued.

18. Because of defendant's preliminary statements, the prior filing date of the Ruggles and Smith application for the patent in suit and defendant's assertions of patentability over the prior art under consideration and with knowledge of this prior art, the plaintiff, The Timken-Detroit Axle Company, elected to save the expense of prosecuting Interference 73,919 to a conclusion by conceding priority of invention of the subject matter of claims 5 to 12 of Ruggles and Smith and taking the non-exclusive license, PX-3 or PX-38.

19. The license agreement, PX-3 or PX-38, involved in this controversy was drafted by counsel for plaintiff and followed closely the wording of a proposed license agreement, PX-37, submitted by defendant but included additional clauses intended to protect plaintiff against invalid [fol. 29] or improper patent claims that might be obtained in the Ruggles and Smith application.

20. The sole consideration passing from defendant to plaintiff under the agreement, PX-3 or PX-38, was the right to make, sell and use auxiliary transmissions or transfer cases embodying improvements invented by Ruggles and Smith and disclosed in application Serial No. 7,751, the application which matured into patent 2,173,044 in suit.

21. The subject matter of claims 5 to 12 of patent 2,173,044 in suit was disclosed to defendant by the plaintiff in January, 1934, more than two years prior to the amendment of May 23, 1936, by furnishing prints of plaintiff's T-32 transfer case, PX-34, to defendant.

22. The subject matter of claims 5 to 12 of patent 2,173,044 in suit was in public use by the Army in Holabird Quartermaster Base, Baltimore, Maryland, in the Dodge and White trucks employing plaintiff's T-32 transfer case, PX-34, as early as January, 1934.

23. Defendant's proofs as to the earliest date for possession of the alleged invention of the subject matter of claims 5 to 12 by Ruggles and Smith is indefinite and it is not clearly established that this date is prior to the disclosure of PX-34 to defendant by plaintiff.

24. Plaintiff's proofs as to the work of Ruggles and Smith indicate that the two-speed auxiliary transmission or transfer case defined by claims 5 to 12 of the patent in suit was not deemed worthwhile by Ruggles and Smith [fol. 30] as late as March, 1934, and that Ruggles and Smith were working on a single speed, auxiliary transmission or transfer case at that time.

25. The agreement, PX-3 or PX-38, provides that plaintiff shall pay royalties, from and after issuance of a patent to Alma with claims dominating transfer cases made by Timken, on every auxiliary transmission or transfer case made by it and embodying improvements invented by Ruggles and Smith and disclosed in application Serial No. 7,751, the application which matured into patent 2,173,044 in suit.

26. The auxiliary transmissions or transfer cases of PX-57 to PX-79 made by plaintiff follow the construction of the Automotive Industries Publication, PX-54, more closely than the construction of patent 2,173,044 in suit.

27. The transfer cases of PX-94a to PX-94g made by plaintiff are single-speed, auxiliary transmissions or transfer cases rather than two-speed auxiliary transmissions or transfer cases as disclosed and claimed by patent 2,173,044 in suit.

28. The transfer cases of PX-91d, PX-91e, PX-91i, PX-91j and the T-32-17 transfer case of PX-90 drive the rear wheels only and are used in 6 x 4 trucks and for this reason differ from the construction of patent 2,173,044 in suit wherein the front and rear wheels are driven and the construction is used in a 4 x 4 truck.

29. The transfer cases T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6 of DX-21 (Class A-3) and DX-21 (Class A-4) do not drive the rear wheels from an output shaft [fol. 31] aligned with the input shaft as in the construction of patent 2,173,044 in suit but follow the teaching of the

Automotive Industries Publication, PX-54, by driving the front and rear wheels from the opposite end of the same shaft, a shaft like d, b of PX-54.

30. The transfer cases of PX-91k (DX-21, Class A-6) follow the Automotive Industries Publication, PX-54, in that the sliding gear on the input shaft engages either a gear rota-bly mounted on the input shaft or a gear carried by the countershaft rather than a gear formed integrally with an aligned output shaft as in patent 2,173,044 in suit and furthermore employs a further extra gear on the countershaft corresponding roughly to the extra middle gear of the Wisconsin T-9 use of PX-82 and these transfer cases differ in construction and mode of operation from that described and claimed in patent 2,173,044 in suit.

31. The transfer cases T-32-2 and T-32-9 of PX-90 have not been manufactured since patent 2,173,044 in suit issued.

32. The automatic front wheel clutch employed in the transfer cases T-43-P-1 and T-43-V-1 of PX-91h (DX-21, Class A-5) is different in construction and mode of operation from the front wheel clutch described and claimed in patent 2,173,044 in suit.

33. The remaining auxiliary transmissions or transfer cases made by plaintiff, namely PX-34; the T-32-13-1 of DX-21 (Class A-3); PX-91b; PX-91c; PX-91f; the T-43-G and T-43-H of DX-21 (Class A-1); the T-32-13, T-32-14, [fol. 32] T-32-14-1, T-32-15 and T-32-16 of PX-90; and the T-32-17-1 and T-32-17-2 of DX-21 (Class A-2), do not employ the internal, front wheel clutch described in patent 2,173,044 in suit and claimed in claims 1 to 4.

34. The Huff patent 1,073,650 of PX-4 is a power transmitting mechanism designed to drive the rear wheels of an automotive vehicle and employs an input shaft having one end journalled in a gear formed on the end of the output shaft to the rear axle, a countershaft, gears and a slidable element carried by the input shaft for directly engaging internal teeth of the output shaft gear for driving the input shaft and output shaft at the same speed or engaging an external toothed gear on the countershaft to drive the output shaft indirectly from the input shaft

through a second gear carried by the countershaft and meshing with external teeth on the output shaft gear.

35. The Church patent 1,253,670 of PX-4 is an auxiliary power transmitting mechanism for driving a hoisting mechanism carried by an automotive vehicle and employs an input shaft having one end journalled in a gear formed on the end of the output shaft, a countershaft, gears and a slidable element carried by the input shaft for directly engaging internal teeth of the output shaft gear for driving the input and output shaft at the same speed or engaging an external toothed gear on the countershaft to drive the output shaft indirectly from the input shaft through a second gear carried by the countershaft and meshing with external teeth on the output shaft gear.

36. Defendant on December 3, 1940 acknowledged that claim 10 of patent 2,173,044 in suit was affected by the [fol. 33] Church patent 1,253,670 and stated that a disclaimer has been filed.

37. No disclaimer of claim 10 of patent 2,173,044 in suit has been filed.

38. The Reif patent 1,296,216 of PX-4 is a power transmitting mechanism designed to drive both the front and rear wheels of an automotive vehicle and employs an input shaft having one end journalled in a gear formed on the end of an axially aligned, primary output shaft to the rear axle, a secondary output shaft to the front axle disposed parallel to the input and primary output shafts, a countershaft disposed parallel to and in the plane of the input and output shafts and gearing for simultaneously transmitting power from the input shaft to the output shafts and a sliding gear to disconnect the power input shaft from the power output shafts.

Conclusions of Law

1. Counts I and II of the Complaint assert justiciable controversies within the meaning of the Federal Declaratory Judgment Act of June 14, 1934, Amended, Section 274-d Judicial Code; U. S. C. Title 28 Section 400.

2. This Court has jurisdiction of both the subject matter and parties under Counts I and II of the Complaint and under the Counterclaim.

3. The agreement, PX-3 or PX-38, is unenforceable against plaintiff and void since defendant, in law, had and [fol. 34] has no monopoly and plaintiff's agreement to pay for a license to be relieved from the consequences of defendant's monopoly was made because of the asserted monopoly and, therefore, is not supported by any consideration flowing from defendant to plaintiff.

3(a) The public interest demands that one who seeks to ...e a patent monopoly out of the public domain, and who becomes aware of pertinent prior art unknown to the Patent Office, has the duty of assuming the burden of calling said art to the attention of the Patent Office representing the public interest. Defendant in this case had said duty after the settlement of Interference No. 73,919.

3(b) Defendant's representatives failed to discharge the duty that rested on them to bring pertinent prior art known to defendant to the attention of the Examiner before the patent in suit issued, and defendant is in no position to ask a Court in equity to refuse consideration of said art on technical grounds.

4. Plaintiff is not estopped to contest inventorship of the subject matter of claims 1 to 12 of Ruggles and Smith patent 2,173,044 in suit or validity of claims 1 to 12 of the patent in suit by reason of its concession of priority in Interference 73,919 or the license agreement, PX-3 or PX-38, because of the public interest, *Muncie Gear Works, Inc. et al. v. Outboard, Marine and Manufacturing Co.*, 86 L. Ed. 740 (53 U. S. P. Q. 1). *Morgan v. Daniels*, 153 U. S. 120, 14 S. Ct. 772, 38 L. Ed. 657; *Standard Water Systems Co. et al. v. Griscom-Russell Co.*, 278 F. 703 (cer. den. 259 U. S. 580); *Lorenz v. Colgate-Palmolive-Peet Co.*, 122 F. (2d) 875 (51 U. S. P. Q. 72); *Russell v. J. P. Seeburg Corporation*, 123 F. (2d) 509 (51 U. S. P. Q. 306); *McElrath v.* [fol. 35] *Industrial Rayon Corp. et al.*, 123 F. (2d) 627 (51 U. S. P. Q. 341; Case 2); *American Graphophone Co. v. Gimbel Bros.*, 234 F. 344; and *Thomson Spot Welder Co. v. Ford Motor Co.*, 281 F. 680.

5. Even if valid and enforceable the terms of the Timken-Alma license agreement, PX-3 or PX-38 accord plaintiff the right to contest the inventorship of claims 1 to 12 (all of the claims) of Ruggles and Smith patent 2,173,044

in suit. *Corpus Juris*, Vol. 48, Sec. 416, page 268, and *Baldwin Rubber Co. v. The Paine & Williams Co.*, 107 F. (2d) 350 (43 U. S. P. Q. 350).

6. The subject matter of claims 1 to 4 of patent 2,173,044 in suit is unpatentable since this subject matter is merely the equivalent of the Wisconsin T-9 prior use construction of PX-82 and the Spicer prior use construction of PX-28 developed and used by the Army Engineers at Holabird Quartermaster Base at Baltimore, Maryland, about 1930-1931 and March to November, 1933, respectively.

7. Ruggles and Smith did not invent the subject matter of claims 5 to 12 of patent 2,173,044 in suit since this subject matter was disclosed to Ruggles and Smith by plaintiff and was in public use by the Army at Holabird Quartermaster Base, knowledge of which was accessible to Ruggles and Smith at least six months prior to the earliest date of knowledge and use proved for them.

8. Claim 6 of the Ruggles and Smith patent 2,173,044 in suit is anticipated by the patent to Reif, 1,296,216 of PX-4.

[fol. 36] 9. Claim 10 of the Ruggles and Smith patent 2,173,044 in suit is anticipated by the patent to Church, 1,253,670 of PX-4.

10. Claims 11 and 12 of the Ruggles and Smit patent 2,173,044 in suit is anticipated by the Spicer prior use of PX-28.

11. Claims 1 to 4 of the Ruggles and Smith patent 2,173,044 in suit are invalid since they fail to define any invention over the Automotive Industries Publication, PX-54, in view of the Wisconsin T-9 prior use of PX-82, or the Spicer prior use of PX-28, or the Wisconsin prior use of PX-83, or the Wisconsin prior use of PX-92. *Corpus Juris*, vol. 48, Sec. 73, pages 69 and 70.

12. Claims 5 to 12 of the Ruggles and Smith patent 2,173,044 in suit are invalid since they fail to define any invention over the Automotive Industries Publication, PX-54, in view of the Huff patent 1,075,650 of PX-4, or the Wisconsin T-9 prior use of PX-82, or the Spicer prior use of PX-28, or the Wisconsin T-32 prior use of PX-34,

or the Wisconsin T-35 prior use of PX-92. *Corpus Juris*, Vol. 48, Sec. 73, pages 69 and 70.

13. Claims 1 to 12 of the Ruggles and Smith patent 2,173,044 in suit are invalid since they fail to define any invention over the Spicer prior use of PX-28. *Corpus Juris*, Vol. 48, Sec. 73, pages 69 and 70.

14. The only difference over the prior art defined by claims 1 to 12 of the Ruggles and Smith patent 2,173,044 in suit are within the expected skill of the ordinary me-[fol. 37] chanic at the time of the alleged invention by Ruggles and Smith. *Corpus Juris*, Vol. 48, Sec. 73, pages 69 and 70.

15. Ruggles and Smith patent 2,173,044 is void and of no force and effect because the subject matter claimed was not invented by Ruggles and Smith.

16. Ruggles and Smith patent 2,173,044 is invalid for failure to define any invention over the prior art.

17. Ruggles and Smith patent 2,173,044 is void for failure to promptly file a disclaimer of claim 10. *Revised Statutes* 4917 and 4922 and *Ensten v. Ascher and Co.*, 282 U. S. 445.

18. Claims 5 to 12 of Ruggles and Smith patent 2,173,-044 are invalid because of the public use, or sale, of devices embodying the asserted invention more than two years before said claims were presented to the Patent Office. *Revised Statute* 4886; *Muncie Gear Works, Inc. et al. v. Outboard, Marine and Manufacturing Co.*, 86 L. Ed. 740 (53 U. S. P. Q. 1).

19. Plaintiff is not obligated to pay any royalties under the agreement, PX-3 or PX-38, because patent 2,173,-044 upon which the agreement is based is void and invalid.

20. Even if patent 2,173,044 is assumed to be valid and enforceable, plaintiff's transfer cases PX-57 to PX-79; PX-94a to PX-94g; T-32-17 of PX-90; PX-91d; PX-91e; PX-91i; PX-91j; T-32-13-2, T-32-13-4, T-32-13-5 and T-32-[fol. 38] 13-6 of DX-21 (Class A-3) and DX-21 (Class A-4); T-79, T-79-1 and T-79-4 of PX-91k and DX-21 (Class A-6); do not infringe any of the claims of patent 2,173,044 in suit. *Westinghouse v. Boyden*, 170 U. S. 537.

21. Even if patent 2,173,044 is assumed to be valid and enforceable, plaintiff's transfer cases of PX-91h and DX-21 (Class A-5) do not infringe claims 1 to 4 of patent 2,173,044 in suit. *Westinghouse v. Boyden*, 170 U. S. 537.

22. Even if patent 2,173,044 is assumed to be valid and enforceable, plaintiff's auxiliary transmissions or transfer cases, PX-34; the T-32-13-1 of DX-21 (Class A-3); PX-91b; PX-91c. PX-91f; the T-43-G and T-43-H of DX-21 (Class A-1); the T-32-13, T-32-14, T-32-14-1, T-32-15 and T-32-16 of PX-90; and the T-32-17-1 and T-32-17-2 of DX-21 (Class A-2) do not infringe claims 1 to 4 of patent 2,173,044 in suit. *Westinghouse v. Boyden*, 170 U. S. 537.

23. Even if patent 2,173,044 in suit and the agreement, PX-3 or PX-38, are assumed to be valid and enforceable, plaintiff is not obligated under the terms of the agreement to pay royalties on the auxiliary transmissions or transfer cases of PX-57 to PX-79; PX-94a to PX-94g; the T-32-17 of PX-90; PX-91d; PX-91e; PX-91i; PX-91j; T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6 of DX-21 (Class A-3) and DX-21 (Class A-4); the T-79, T-79-1 and T-79-4 of PX-91k and DX-21 (Class A-6) made, sold and/or used by it.

The foregoing proposed findings and conclusions it is submitted are all warranted by the record, and are respectfully asked.

[fol. 39] IN UNITED STATES DISTRICT COURT

Defendant's Proposed Findings of Fact and Conclusions of Law

DEFENDANT'S PROPOSED FINDINGS OF FACT

1. This action is brought under the Federal Declaratory Judgment Act (Sec. 274-d Judicial Code—Title 28 Sec. 400).

2. Plaintiff is an Ohio corporation with its factory and principal place of business in Detroit, Michigan. Defendant is a Delaware corporation, with its factory and principal place of business at Alma, Michigan. Defendant is

the owner of the Ruggles and Smith patent for "Auxiliary Transmission Mechanism for Four-Wheel-Drive Automotive Vehicles", No. 2,173,044, and plaintiff is a licensee under such patent.

3. The license was granted in May, 1938, during proceedings for settlement of Interference No. 73,919, then being contested in the Patent Office, and involving the application of Ruggles & Smith (owned by defendant), an application filed by B. W. Keese (owned by plaintiff), and an application filed by A. W. Herrington (owned by Marmon-Herrington Company of Indianapolis, Indiana). Claims 5 to 12 of the Ruggles and Smith patent were counts in such Interference, and concessions of priority of invention of the subject matter of these claims 5 through 12 were filed in the Patent Office by plaintiff and Herrington in favor of defendant. Seven other counts were included in this Interference at the time of the settlement negotiations, but, at a conference in Detroit, several prior art patents and prior uses were studied by attorneys representing the interfering parties, and it was mutually agreed by such attorneys that such seven counts were too broadly worded to be valid over the prior art. The attorneys mutually agreed to disclaim these two broadly worded counts, and each party to the Interference filed such a disclaimer. Among the prior uses considered at the conference, were [fol. 40] two transfer cases made by a subsidiary company of plaintiff—Wisconsin Axle Company—and known as Timken T-7 and T-9 transfer cases, and a transfer case made in late 1933 by the Spicer Manufacturing Company, and among the prior patents discussed at the conference was the patent to Church, No. 1,253,670.

4. The terms of the license agreement were decided upon at said conference, plaintiff accepting a prof-erred nonexclusive license and agreeing to pay the sum of $1500.00 immediately and royalties, graduated according to size of vehicles using Timken transfer cases, on each licensed transfer case made by plaintiff, such payment of royalties to begin when the Ruggles and Smith patent issued to defendant "with claims dominating Transfer Cases made by Timken". Plaintiff's attorneys drew the license agreement, at the time of signing thereof, the $1500.00 was paid by plaintiff to defendant.

5. The Ruggles and Smith application involved in said interference issued as patent No. 2,173,044, on September 12, 1939, with claims 5 through 12 thereof identical in language with the eight counts of the interference concerning which concessions of priority had been filed by plaintiff and Herrington. Written notice of its issuance was given plaintiff, and plaintiff was requested to mark its licensed transfer cases with patent notice to the public. Instructions were given regarding patent marking by plaintiff's attorney to Timken employees.

6. Periodical royalty reports were made by plaintiff to defendant, and royalties were paid on some of the Timken transfer cases included in such reports. Plaintiff refused, however, to pay royalties on other Timken transfer cases listed in such reports, giving as a reason for its refusal that they had been advised by its attorneys that certain claims of the Ruggles and Smith patent were invalid. No details concerning such alleged invalidity was furnished to defendant in writing, but in telephonic and oral conversations be- [fol. 41] tween attorneys, reference was made to the same Spicer transfer case and Church patent that had been previously considered at the Detroit conference where the interference was settled. In such conversations, defendants steadfastly maintained that plaintiff had no right to contest the validity of the licensed patent while remaining a licensee.

7. Blueprints of the transfer cases made and sold by plaintiff since the issuance of the Ruggles & Smith patent are shown herein as Exhibits PX-57 to PX-79. Defendant selected from among these blueprints the following transfer cases as those on which royalties are claimed under the license agreement, specifying the claims of the Ruggles & Smith patent which cover each of selected transfer cases, to wit:

(A-359) T-32
(A-468) T-32-9
(A-477) T-43-G & T-43-H
(A-595) T-32-15-1
(A-388) T-32-2
(A-604) T-32-17-1
(A-635) T-32-17-2
(SKT-6338) T-32-13-1 & T-32-13-2

(A-582) T-32-13-3
(A-605) T-32-13-1
(A-596) T-32-13-4
(A-612) T-32-13-2 & T-32-13-6
(A-626) T-43-P-1
( ) T-43-V-1
(A-631) T-79 & T-79-1 & T-79-4

Plaintiff thereupon admitted that each of the transfer cases selected by defendant was covered by one or more claims of the Ruggles & Smith patent and that such patent would be infringed thereby.

8. Royalties were paid by plaintiff to defendant on certain of the selected transfer cases, but have not been paid on the remainder of the selected transfer cases.

[fol. 42] DEFENDANT'S PROPOSED CONCLUSIONS OF LAW

1. Plaintiff is a licensee under the Ruggles & Smith patent No. 2,173,044, and has been since the issuance of such patent on September 12, 1939.

2. While remaining a licensee plaintiff has no right to contest the validity of the Ruggles & Smith patent. (Kinsman v. Parkhurst, 18 Howard 289; U. S. v. Harvey Steel Co., 198 U. S. 310; Eskimo Pie Corp. v. Arctic, 15 Fed. (2d) 853; Jefferson Elec. Co. v. Sola Elec. Co., 125 Fed. (2d) 322; Engineering Co. v. Perryman Elec. Co., 166 Atl. 46.)

3. The license agreement herein, as worded, does not grant to defendant any status different from that of the usual licensee, and particularly does not grant to defendant the right to contest validity of the Ruggles & Smith patent. (Ellis on Patent Assignments and Licenses, p. 490; U. S. v. Harvey Steel Co., 196 U. S. 310; Edison Elec. Co. v. Thackara, 167 P. 530; Eastern States Petroleum Co. v. Universal, 37 U. S. P. Q. 834; Universal Co. v. Scott, 21 Fed. (2d) 346.)

4. The following transfer cases made and sold by plaintiff since the issuance of the Ruggles and Smith patent are dominated by one or more claims of such licensed patent, to wit:

(A-359) T-32
(A-468) T-32-9

(A-477) T-43-G & T-43-H
(A-596) T-32-15-1
(A-388) T-32-2
(A-604) T-32-17-1
(A-635) T-32-17-2
(SKT-6338) T-32-13-1 & T-32-13-2
(A-582) T-32-13-3
(A-605) T-32-23-1
(A-596) T-32-13-4
[fol. 43] (A-612) T-32-13-5 & T-32-13-6
(A-626) T-43-P-1
( ) T-43-V-1
(A-631) T-79 & T-79-1 & T-79-4

5. Plaintiff should pay to defendant a license fee in accordance with the terms of the license agreement on each of the transfer cases listed above manufactured and sold by plaintiff since the issuance of the Ruggles & Smith patent.

6. In those cases where license fees have been withheld by plaintiff, interest should be added beginning from the dates of the royalty reports scheduling the manufacture and sale of such transfer cases on which license fees were withheld. (Crescent Min. Co. v. Wasatch Min. Co., 151 U. S. 317; Curtis v. Innerarity, 47 U. S. 154; Spaulding v. Mason, 161 U. S. 375.)

A judgment shall be prepared by defendant dismissing plaintiff's Bill of Complaint, with costs and expenses to defendant.

SUPPLEMENTARY SUGGESTED CONCLUSIONS OF LAW

7. In addition to the estoppel incident to plaintiff's status of licensee, plaintiff is also estopped to repudiate the position taken by it at the Detroit conference when the patentability and proper wording of eight interference counts identical in wording with present Claims 5 to 12 inclusive of the Ruggles & Smith patent was mutually admitted by all parties present. Reversal of the position then taken by plaintiff, to the detriment of defendant, cannot be tolerated.

8. The Ruggles & Smith patent, and each claim thereof, is valid over all prior art of record herein. No prior patent

or prior use shows the combination of elements recited by the claims of the patent-in-suit in the position disclosed by Ruggles & Smith. The Ruggles & Smith transfer case satisfied a long-felt want and was quickly accepted by the [fol. 44] trade, its commercial success growing steadily from year to year. The attitude of plaintiff in applying for Letters Patent on substantially the same subject matter, vigorously prosecuting such application until the interference, and bringing two motions in such interference prior to the settlement of the interference by concession of priority to Ruggles & Smith with simultaneous acceptance of a license by plaintiff, is strongly indicative of recognition by plaintiff of the merits of the Ruggles & Smith invention.

IN UNITED STATES DISTRICT COURT

OPINION—Filed September 23, 1942

Before KIRKPATRICK, *J.*

In this action the plaintiff, under the Declaratory Judgment Act, asks the Court to determine certain questions of law and fact, arising in connection with the defendant's patent No. 2,173,044 (issued to Ruggles and Smith September 12, 1939) and an agreement by which the plaintiff became a licensee. The patent is for mechanism known as a transfer case—an auxiliary transmission by which the drive of the engine of an automobile truck may be extended to the front axle as well as to the rear. In substance, the relief asked for is that the Court declare that the patent is invalid, that the transfer cases manufactured by the plaintiff do not come within its claims as construed in the light of the prior art, and that, under the license agreement, or, in spite of it, the plaintiff is not bound to pay royalties upon any of the transfer cases now being manufactured by it. The defendant has counterclaimed asking judgment for damages for the plaintiff's failure to pay royalties.

In the early part of 1938, the plaintiff, Timken, the defendant, Alma, and a third company, Harrington, were in interference, each with a patent application for a transfer case. The three devices were essentially the same and [fol. 45] three were 15 counts in the interference. After

some preliminary sparring in the Patent Office, there was a meeting between representatives of the three parties at the Book-Cadillac Hotel in Detroit in May 1938 at which it was agreed that Alma should have the patent and would license the other two when it issued. There are some indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating. After the conference, Timken and Harrington formally conceded priority to Alma, Alma disclaimed certain counts of the interference which the parties had agreed were anticipated by prior art which had been produced and studied at the conference, and Alma and Timken executed the license agreement in question, Harrington dropping out because it had come to the conclusion that it did not want to manufacture the cases.

There were actually two contract documents executed, the first on May 16, 1938 and the second on May 26, 1938, but I think they may be considered together as though they were a single license agreement. The second embodied the essential terms of the first, and the parties are apparently in agreement that the recitals in the earlier document should be considered in determining the scope and construction of the later one.

The first question is whether or not Timken is estopped to contest the validity of the patent. I am of the opinion that it is estopped to raise that issue, and therefore will not adjudicate the patent in this proceeding.

The rule that a licensee may not contest the validity of the patent under which he is licensed is well settled and has long been a part of the patent law. In this case Timken endeavors to avail itself of several avenues of escape from the estoppel.

First, Timken contends that this license, by its terms as interpreted in the light of the recitals, intends that the licensee shall be free to contest the patent. I do not so read the agreement. The contention is based on the first [fol. 46] recital of the agreement of May 16 and on Clause IV of the second document which is practically identical with Clause VI of the first document.

The recital, of course, was intended to define the subject matter. It is a statement that Ruggles and Smith have invented certain improvements, which improvements

are further described as transfer cases and identified as the ones disclosed in the Ruggles and Smith application then pending. Then Alma licenses Timken to make, etc. "the said improvements" and Timken agrees to pay royalties upon transfer cases "embodying said improvements." Then there is a clause the meaning of which is that, after the issuance of the patent, the royalties shall be paid only if any of the claims dominate the transfer cases made by Timken. I think it perfectly plain that the intention was to pay royalties on transfer cases coming within the terms of the claims of the patent as issued. I do not think that the incidental use of the word "invented" meant that it was intended the licensee was to be free to contend that his obligation to pay royalties was not coextensive with the issued patent as defined by its claims. Five patent lawyers participated in the conference, and at least two in drawing the agreement. They understood the rule that estops a licensee and certainly would have provided against it in plainer terms than these had that been the intention of the parties. But even if it were possible, by emphasis upon the word "invented", to whittle down the scope of the license to something less than the patent, I should say that the recital estopped Timken to deny that Ruggles and Smith had invented the improvements just as much as the license estops it to contest the validity of the patent.

The assertion in Timken's brief that Alma represented that Ruggles and Smith invented the improvements in question is not entirely correct. Actually, it was as much Timken's assertion as Alma's. Both parties executed the agreement and both agreed to the recital. They had before them practically the same prior art which was presented at the [fol. 47] hearing. As a matter of fact Timken's lawyers knew more about the prior art than Alma did, an important use having been shown to Alma's counsel, for the first time, only a few hours before the conference.

The clause referring to the issuance of a patent with claims dominating transfer cases made by Timken seems to have been inserted, from an excess of caution, to be sure that "said improvements" could not possibly be construed to cover any improvements disclosed by the pending application which might be eliminated or extensively modified in the issued patent. If anything, this clause only serves

to make stronger the inference that the subject matter of the license was improvements as described in the patent claims.

The provision contained in Clause IV does not permit the licensee to contest the validity of the patent. This point is settled by the decision of the Supreme Court of the United States v. Harvey Steel Co., 196 U. S. 310.

Another ground for Timken's contention that it is not estopped is the public interest involved in any adjudication involving the validity of the patent. There have been cases in which public interest has been said to be a justification for allowing a licensee to contest validity but, as pointed out by this Court in Crom v. Cement Gun Company, Civil Action No. 145, in an opinion filed June 25, 1942, but not yet reported, this is only in exceptional cases. Such a case was Standard [illegible] Co., 278 Fed. 703. [illegible] pointed out by this Court in the Crom [illegible] the general rule for the Third Circuit [illegible] circumstances in the present action which req[illegible]ation of the validity of this patent in the public interest. I am not adjudicating its validity. I am merely holding that this plaintiff may not contest it, and I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here. I might go further and say that an issue which the party who attempts to raise it is [fol. 48] estopped to contest does not present a justiciable controversy under the Declaratory Judgment Act.

Another point made by Timken is that it may contest the patent on a plea of failure of consideration. There are decisions establishing an exception to the rule on that ground, but it takes more than merely an assertion of invalidity or even the fact of invalidity to show failure of consideration. The typical case in which it has been allowed to toll the estoppel is where general competition by unlicensed manufacturers who have gone ahead in disregard of the patent has made it wholly valueless to the licensee.

Although estopped to contest the validity of the patent, a licensee is not precluded from showing the state of the art, for the purpose of construing the claims. If, in the process, the claims should be held to mean something narrower than might appear from the literal reading of them, the licensee is entitled to the benefit of that, on the question

whether or not he must pay royalties. See Westinghouse v. Formica, 266 U. S. 342. This is the rule of the patent law, and it is not affected by reference in this agreement to a patent with claims dominating transfer cases made by Timken. The purpose and meaning of that clause has been pointed out and I think that it has no effect upon the extent of the use which may be made of prior art in this case. That is defined by the general rule in the Formica case.

At this point it may be convenient to dispose of two fact issues, before taking up the question, which of the Timken transfer cases are subject to royalties.

1. I find as a fact that there was no definite agreement on the part of Alma to bring the Spicer use to the attention of the Patent Examiner in the course of further prosecution of the patent. If any suggestion was made, which I rather doubt, it was not with the intention that it should be a definite obligation upon Alma and did not constitute an inducing cause of the agreement. Consequently Alma's failure to bring the Spicer use to the attention of the Patent [fol. 49] Examiner has no effect upon and does not discharge Timken's obligation in respect of royalties.

2. The date of conception of the invention patented by Ruggles and Smith was prior to October 27, 1933. The inventors exercised reasonable diligence from conception to reduction of practice. The Spicer transfer case does not constitute prior art against Ruggles and Smith.

The Spicer transfer case was one of the mechanisms considered as prior art at the Book-Cadillac conference, although Alma's representatives asserted that their invention antedated it. Both the Spicer and the transfer case of the patent were developed in their final form in the latter part of 1933. The date set by the plaintiff for the first public use of Spicer is November 1933 when a White Motor Company truck incorporating the Spicer transfer case was sent to Camp Holabird for test.

To establish a date of conception for the patent in suit a number of blueprints made or used by the inventors were produced (DX-22 and the DX-23 series) from the group in the Alma files on transfer cases. The authenticity and accuracy of the dates on these blueprints has not been questioned. They represent drawings of (1) a complete single-speed transfer case (DX-22), which does not embody

the subject matter of the patent, (2) a complete two-speed transfer case (DX-23V), and (3) various single elements or parts of both, in no particular order as to dates or numbers. The complete single-speed assembly and many of the drawings of parts are undated. A number of the parts could be used only in the single-speed transfer case and those of this class which are dated range from February to August or later in 1933. Some are probably interchangeable and the dates of these range from February to December. Others could be used only in the two-speed transfer case and most of these are either undated or were drawn in December, as was the only dated drawing of the complete two-speed assembly. One drawing, however, (DX-23K) of the shiftable gear on the upper shaft of the [fol. 50] two-speed transfer case is dated October 27, 1933. This part could be used only in the two-speed transfer case and is of the same dimensions as the sliding gear in the December 29 drawing of the whole assembly. Both drawings also specify "20 teeth 6 pitch". While the parts in the drawings of the whole two-speed assembly are numbered, and some of the drawings of individual parts are numbered to correspond, the blueprint of the sliding gear of October 27, either is not numbered or the shop number is obscured. However, there can be no doubt whatever of the nature of the individual drawing, and the Ruggles and Smith date of the conception must, therefore, have been prior to October 27.

It seems to me that the whole question of the priority of Spicer is more or less academic, and I have gone into it only because an Appellate Court might think otherwise. Each of the Timken devices upon which royalties are claimed are so much nearer to the Ruggles and Smith construction than they are to Spicer's, that, even if limited by Spicer as prior art, the claims would still include most of the Timken cases.

Coming now to the question of applying the claims to the transfer cases manufactured by Timken:

Under the rule of the Formica case, supra, "* * * the state of the art can not be used to destroy the patent and defeat the grant, because the assignor is estopped to do this. But the state of the art may be used to construe and narrow the claims of the patent, conceding their validity.

The distinction may be a nice one but seems to be workable." In practical application this must mean that the scope of the claims shall be coextensive with their novelty. The estopped eliminates the question of invention and leaves novelty as the criterion, and if a claim is not anticipated it is immaterial whether or not its novelty constitutes an inventive step. To this extent, at least, the distinction is workable.

Before proceeding with the consideration of the particular claims, five of the twenty Timken transfer cases [fol. 51] upon which royalties are claimed by the defendant may be entirely eliminated from the general discussion and four others reserved for special consideration.

(1) T-79, T-79-1 and T-79-4 do not infringe any of the claims as limited by the prior art. These transfer cases do not employ the Ruggles and Smith gearing and are more complex, thus falling short of the simplicity which is, perhaps, the essential and underlying novelty of the patent. See answer to the plaintiff's 12th request for fact finding.

(2) During the course of the trial, the defendant's attorney made the unqualified statement that royalties were not claimed upon any transfer cases which did not include a frontwheel drive. This declaration must be taken as binding upon the defendant, and thus T-32-17-1 and T-32-17-2 (which do not drive front wheels from the secondary output shaft but are adapted for use in a 6 x 4 truck where the four rear wheels are driven) drop out of the case. With these devices out, it makes no difference whether or not claims 6 to 12 are limited to front-wheel drive constructions, as the plaintiff contends they should be.

(3) The following devices will be reserved for consideration in connection with claim 10: T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6, in which there is no internal declutch as required by the first four claims and the driven upper shaft (in one end of which the input shaft is piloted) is capped and, therefore, not a power shaft as required by all the other claims except 10. In these Timken transfer cases the power for both rear and front wheels is taken from the lower shaft.

As a basis for the discussion of the scope of the claims, claim 1 may be taken as typical. It is:

1. In an auxiliary gear box.

(a) a drive shaft,
(b) a driven
[fol. 52] (c) shaft,
(d) a gear on the (driven) shaft,
(e) one end of the drive shaft being piloted in said gear,
(f) internal
(g) clutch teeth
(h) in said gear,
(i) intermediate shaft
(j) with gears mounted thereon
(k) to rotate therewith,
(l) one of said gears meshing with the gear on said driven shaft,
(m) a shiftable creeper gear mounted on the drive shaft
(n) and shiftable into and out of engagement with one of the intermediate gears and/or
(o) the (internal) clutch teeth on the (driven) shaft gear,
(p) a second driven shaft,
(q) a gear
(r) rotatably
(s) mounted thereon and
(t) meshing with one of the intermediate gears, and
(u) a clutch mounted on the second driven shaft for engaging or disengaging said gear . . .

Claims 2 and 3 are, for all practical purposes, identical with claim 1.

All Timken devices, with the exception of T-43-p-1 and T-43-v-1, are free of the first three claims, because none of them have an internal declutching mechanism for the sec-
[fol. 53] ondary output shaft (u). The two exceptions mentioned have substantially the kind of clutch specified, except that additively included is an automatic mechanism which engages the secondary output shaft when the motor is accelerated to a speed faster than that of the wheels and

disengages it when the motor is decelerated. This is not enough to take them out of the coverage of claims 1, 2 and 3, and these two infringe those claims.

Claim 4 differs from claims 1 only in that it is specified that the clutch (u) shall be "for selectively driving the second driven shaft." In the light of the specification this must mean that the clutch shall be manually operated and under the selective control of the operator. Thus, all the Timken devices are free of claim 4, including the two having the automatic clutch.

Claim 5 includes all the elements of claim 1 except the internal clutch (u) and, as a corollary, (r). If the clutch is omitted, the gear, of course, must be fixed by being splined or keyed upon the secondary drive shaft instead of revolving upon it on bearings; otherwise it would not transmit power to it at all. Claim 5 also specifies that the secondary output shaft (p) shall be "connectible at one end with a shaft leading to front traction wheels." All the Timken transfer cases infringe claim 5 except the nine eliminated or reserved at the beginning of this discussion.

Claims 6, 8 and 11 specify only the four shafts of claim 1 [(a), (b), (c)—and, in 11 (e)—(p) and (i)] and "gears for simultaneously transmitting power" between them "selectively operable to disconnect" them. It is also specified by 6 and 8 that the three shafts shall be parallel and in the same plane. Claims 6, 8 and 11 upon their terms are fully anticipated by the prior T-9 and Reif, No. 1,296,216, March 4, 1919. There is no novelty in these claims, unless they can be limited to a construction in which the elements described as "gears for simultaneously transmitting power" are confined to the particular arrangement disclosed by the specification. The claims at hand are not [fol. 54] unlike the usual means claim, and their effect would be very little changed if "means" or "gearing means" had been used instead of "gears" for transmitting power. Just as, in some cases, a claim may be limited by the specification to save it from invalidity, so here I think we may do the same thing, in applying the doctrine of the Formica case, in order to determine their novelty. So construed the claims are novel and infringed by the Timken transfer cases (except the nine eliminated or reserved) because all employ the four-shaft arrangement of 6, 8 and 11 and the gearing arrangement of the specification.

7 and 9 are essentially the same as 5 [claim 1 without internal clutch (u)] except that they do not specify that the secondary drive shaft shall go to the front wheels. Thus all the Timken transfer cases (except the nine eliminated or reserved) infringe these claims.

Claim 10 is for the two upper shafts [(a), (c), and (e)], the second having internal clutch teeth [(f) and (g)], a countershaft (i), upon which a gear is mounted (j), and a shiftable gear on one upper shaft [(m), (n) and (o)]. Precisely this arrangment is seen in Church, No. 1,253,670, January 15, 1918, and in Huff, No. 1,075,650, October 14, 1913.

If read without reference to the specification, claim 10 is not only not a four wheel drive transfer case but is not a power transmitting mechanism at all. There is no second driven shaft (p), and the first (or upper) driven shaft (b) is not described as a power or power output shaft. Unless construed as a subcombination in a power transmitting mechanism its scope would be far outside the whole purpose and intent of the patent. If it be limited to a subcombination in which the pair of axially aligned shafts described consist of a power input and a power output shaft it would be a power transmitting mechanism. But such a limitation leaves the counter-shaft with no function at all in a power transmitting mechanism. However, if it be construed in the light of the specification, as a sub-[fol. 55] combination in a transfer case having a third or lower shaft (p) and the Ruggles and Smith gearing for transmitting power to it, it becomes a novel combination and a power transmitting mechanism in which all parts function. I think it must be so limited. As so construed the four Timken transfer cases in which the upper aligned shaft is capped infringe claim 10.

If no limitation at all, by reference to the specification, be imposed upon this claim we reach the point where the distinction which the Court spoke of in the Formica case—that is, using the prior art to construe and narrow a claim without letting it affect its validity—remains nice but becomes unworkable. The situation is that of a claim, completely anticipated by the prior art. The Court in Swan Carburator Co. v. General Motors Corporation, 42 F. (2d) 452, seized one horn of the dilemma and ignored the prior art. Judge Westenhaver said: "If defendant may not

show invalidity to escape payment of royalties, a practical difficulty exists when one comes to apply the rule permitting the claims to be limited by the prior art. If that art shows the claims to be invalid, the licensee is estopped from denying validity and must pay royalties. If that art only shows that the claims may still be upheld as valid if narrowly limited, then the licensee is not so estoped, and does not have to pay." Somehow, this does not seem to be a very satisfactory solution. However, it is not necessary to attempt to offer a substitute because I think that claim 10 can be properly limited as has been done. At any rate, the result reached is the same as though the method of Swan Carburator case was used.

Claim 12 specifies merely the four shafts of claim 1 [(a), (b), (c), (e), (i), (p)], "power transmitting means" between them, and "a jaw clutch splined upon said power input shaft and selectively engageable with teeth provided on said primary power output shaft." Precisely this combination is embodied in Reif, No. 1,296,216, March 4, 1919. So again, (as with claims 6, 8 and 11) the claim must be [fol. 56] limited to the novel combination where the "power transmitting means" consists of the gearing disclosed by Ruggles and Smith. Even as so limited, however, all the Timken transfer cases not eliminated or reserved would infringe. True, the Timken devices use a gear clutch, but this device is either included in the term "jaw clutch" or is a structural equivalent. The scope of the term "jaw clutch" is quite broad, and no attempt was made in the evidence to define it definitely. However, even if the Timken type clutch would not be included by the term as generally used in the art, the plaintiff is hardly in a position to deny that the two are interchangeable as a matter of choice, since that was its exact contention in connection with its argument based upon alleged priority of Spicer.

Judgment in accordance with the foregoing.

The statements of fact and law in the foregoing opinion may be taken as special findings of fact and conclusions of law.

[fol. 56] IN UNITED STATES DISTRICT COURT

RULINGS ON PLAINTIFF'S REQUESTS

FINDINGS OF FACT

1, 2, 3 and 4. Affirmed.

5 and 6. Denied, since they refer to the issue of validity, which the plaintiff is estopped to raise.

7, 8 and 9. Affirmed.

10. Affirmed. ("T-19" in the request is a misprint and should have been T-9.)

11. Denied as stated. All the Timken devices are two-speed transfer cases. Claims 11 and 12 do not specify two speeds, and I see no reason to limit the scope of the patent in this manner. However, claims 5, 6, 7, 8 and 10, though not necessarily two-speed transfer cases, would not be practical otherwise. Claims 1, 2 and 3 specify "creeper" gearing. Claims 4 and 9 specifically claim two speeds.

[fol. 57] 12. Affirmed, with the modification that it embodies all the physical instrumentalities. It does not embody "improvements" described in the patent specification as "simple, practical, and positive means;" "simple and comparatively inexpensive means;" "the mechanism is simple, practical, and substantial;" "very simple, practical, and inexpensive driving mechanism."

13. Denied. The first sentence of the request may be true if "structural equivalents" includes more complicated gearing which finally results in the same flow of power. The second sentence of the request is not true. For example, claim 1 specifies "intermediate shaft with gears mounted thereon to rotate therewith" while in the Spicer device the intermediate shaft is fixed and the gears are journaled thereon and rotate upon it, not "therewith". Practically all the claims specify that the speed changing clutch shall engage internal teeth in the gear of the primary output shaft and external teeth on one of the intermediate gears, while in Spicer it engages external teeth on the primary output gear and external teeth on a gear upon the input shaft which, in turn, is in constant engagement with one of the intermediate gears. There are other examples.

14. Denied. The statement might be true if it did not claim that the devices accomplish the same result as the structure defined by claims 5 to 12 of the patent. One of the desiderata was that the transfer case be such as could be inserted directly in the drive shaft of the rear wheels without changing its alignment or structure. It is certain that this could not be done with T-7, or PX-54, since in that structure the drive shaft of the rear wheels would have to be dropped from its original position downward so as to be fixed upon the rear end of the lower of the three shafts. Aside from this change as a structural matter such a dropping of the rear drive shaft results in some decrease in clearance.

[fol. 58] 15, 16, 17, 17(a) and 18. Affirmed.

19. Affirmed, except the last clause beginning "intended to protect."

20. Denied as stated. The facts in this connection are stated in the opinion.

21. Not answered as immaterial in view of the estoppel to contest validity.

22. Affirmed, but it is immaterial in view of the date of conception of the patent in suit.

23. Denied. Defendant's proofs as to its *earliest* date of conception are somewhat indefinite, but it is clearly established that the date was prior to the disclosures of PX-34.

24. Denied.

25. Denied. This involves an interpretation of the agreement. See opinion.

26. Not answered as immaterial. Royalties are not claimed on PX-57 to PX-79.

27. Not answered as immaterial. Royalties are not claimed on PX-94a to PX-94g.

28. Not answered as immaterial as to PX-91i, PX-91j and T-32-17 of PX-90, as royalties are not claimed upon these. PX-91d and PX-91e have no drive to front wheels and counsel stated that the defendant does not claim royalties upon them. Consequently the request is immaterial

and is not answered as to them. (Note: There does not seem to be any reason in the claims themselves to limit them to 4 x 4's. In fact I have held that a number of transfer cases used in 6 x 6's infringe a number of the claims. There are only two things which might be argued to the contrary: The specification recited: "This invention relates to vehicle driving mechanism by means of which a con- [fol. 59] ventional automotive vehicle having the usual rear driven axle can be converted into a four-wheel drive vehicle." License agreement May 16, 1938, PX-3, paragraph two, recites, "Frank W. Ruggles and Charles D. Smith have invented certain improvements in Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles.")

29. Affirmed.

30. Affirmed.

31. Affirmed. The only evidence upon the point is a statement by Mr. Strauch in his summary of transfer cases which read upon the terms of the claims. It does not seem to be disputed.

32. Denied. While the clutch is different in construction and is not that described by the specification, I do not believe that the claims need be limited beyond their terms. The first 3 claims merely specify a clutch, without describing it, and specify what driving train the clutch shall engage or disengage. Claim 4 adds to this only that it shall be selective. Plaintiff's brief, under "Nomenclature" gives the following definition: "'Clutch' is a mechanical means employed to selectively connect or disconnect relatively rotatable parts of a transfer case to effect speed changes or to disrupt the driving trains between the input shaft and the primary and/or secondary output shaft." This would include these two devices.

33. Affirmed, so far as material. Royalties are not claimed upon T-32-13, T-32-14, T-32-14-1, T-32-15 and T-32-16. T-32-17-1, T-32-17-2 are those upon which royalties are claimed but which are eliminated by the "front wheel" admission.

34 to 38, inclusive. Affirmed.

[fol. 60] CONCLUSIONS OF LAW

1 and 2. Affirmed.

3. Denied.

3(a) and 3(b). Not answered. I have found as a fact that plaintiff did not promise to disclose prior art to the Patent Examiner. In the absence of such promise failure to do so could have no relevancy except upon the question of the validity of the patent, which is not in issue. If the Spicer use is what is referred to, I have found that it is not prior art against the patent.

4, 5, 6 and 7. Denied.

8 to 19 inclusive. Not answered because immaterial in view of the estoppel to contest validity.

20. Not answered as immaterial as to PX-57 to PX-79, PX-94a, PX-94g, T-32-17 of PX-90, PX-91i and PX-91j, because royalties are not claimed upon these models. As to PX-91d and PX91e, the request is immaterial and not answered because these are the devices eliminated by the "front wheel" admission. Denied as to T-33-13-2, T-32-13-4, T-32-13-5 and T-32-13-6 of DX-21 (Class A-3) and DX-21 (Class A-4). Affirmed as to T-79, T-79-1 and T-79-4 of PX-91k and DX-21 (Class A-6).

21. Denied as stated. The transfer cases referred to do not infringe claim 4 but do infringe claims 1, 2 and 3.

22. Not answered as immaterial as to T-32-13, T-32-14, T-32-14-1, T-32-15 and T-32-16 of PX-90, no royalties being claimed upon these models. Affirmed as to PX-34, T-32-13-1, PX-91b, PX-91c, PX-91f, T-43-G and T-42-H. As to T-32-17-1 and T-32-17-2 the request is immaterial and not answered because of the "front wheel" admission.

23. The request is not answered as immaterial as to the following models because no royalties are claimed thereon: PX-57 to PX-79, PX-94a to PX-94g, T-32-17 and [fol. 61] PX-90, PX-91i, and PX-91j. The request is not answered as immaterial as to PX-91d and PX-91e because of the "front wheel" admission, and as to T-79, T-79-4 because they do not infringe. Denied as to T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6.

In United States District Court

Rulings on Defendant's Requests

Findings of Fact

Defendant's requests for findings of fact are all affirmed with the exception that the last sentence of 7 is modified to read as follows: "Plaintiff thereupon admitted that each of the transfer cases selected by defendant was covered by the terms of one or more claims of the Ruggles and Smith patent and that such patent would be, to that extent, infringed thereby."

Conclusions of Law

1, 2 and 3. Affirmed.

4. Affirmed when modified to read as follows:

A-359	T-32	PX-34
A-468	T-32-9	PX-90
A-477	T-43-G	DX-21
A-477	T-43-H	DX-21
A-595	T-32-15-1	PX-91c
A-338	T-32-2	PX-90

Are dominated by claims 5, 6, 7, 8, 9, 10, 11, 12.

A-604	T-32-17-1	PX-91d
A-635	T-32-17-2	PX-91e

No royalties claimed because no drive to front wheels.

SKT-6338	T-32-13-1	DX-21

Are dominated by claims 5, 6, 7, 8, 9, 10, 11, 12.

SKT-6338	T-32-13-2	DX-21

[fol. 62] Are dominated by claim 10 only.

A-582	T-32-13-3	PX-91b
A-605	T-32-23-1	PX-91f

Are dominated by claims 5, 6, 7, 8, 9, 10, 11, 12.

A-596	T-32-13-4	DX-21
A-612	T-32-13-5	DX-21
A-612	T-32-13-6	DX-21

Same as T-32-13-2.

A-626	T-43-P-1	PX-91h
A-626	T-43-V-1	PX-91h

Are dominated by all claims except 4.

A-631	T-79	PX-91k
A-631	T-79-1	PX-91k
A-631	T-79-4	PX-91k

Are dominated by none of the claims.

5 and 6. Affirmed.

7. Denied.

8. Not answered as immaterial. The validity of the patent is not in issue.

[fol. 63] IN UNITED STATES DISTRICT COURT

JUDGMENT—Filed December 2, 1942

This cause having come on to be heard, upon pleadings and proofs presented in open court by both parties, and after briefs were filed by both parties and other due proceedings had, it is hereby

Ordered, Adjudged and Decreed as follows:

1. That Letters Patent of the United States No. 2,173,044, issued September 12, 1939, on the invention of Ruggles and Smith for "Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles" is owned by the defendant, Alma Motor Company.

2. Plaintiff is a licensee under such patent and has been since the issuance thereof on September 12, 1939.

3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein.

4. That plaintiff has manufactured and sold auxiliary transmission mechanisms since the issue date of said Ruggles and Smith patent which are dominated by one or more claims of such Ruggles and Smith, patent, as follows:

A-359	A-32	PX-34
A-468	T-32-9	PX-90

A-477	T-43-G	DX-21
A-477	T-43-H	DX-21
A-595	T-32-15-1	PX-91c
A-338	T-32-2	PX-90
SKT-6338	T-32-13-1	DX-21
A-582	T-32-13-3	PX-91b
A-605	T-32-23-1	PX-91f

are dominated by claims 5, 6, 7, 8, 9, 10, 11 and 12.

SKT-6338	T-32-13-2	DX-21
A-596	T-32-13-4	DX-21
A-612	T-32-13-5	DX-21
A-612	T-32-13-6	DX-21

are dominated by claim 10 only.

[fol. 64]

A-626	T-43-P-1	PX-91h
A-626	T-43-V-1	PX-91h

are dominated by all claims except 4;—

and that plaintiff should have paid defendant royalties in accordance with the license agreement on all such auxiliary transfer cases.

5. The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant in this suit.

6. That unless plaintiff and defendant shall stipulate and agree in writing within thirty days from the date hereof as to the amount of royalties or license fees due from plaintiff to defendant under the license agreement, with interest at the rate of 5% per annum from the dates when such royalties or license fees became due, the defendant is given leave to apply to this Court for the appointment of a Special Master of this Court to ascertain, take, state and report to the Court the number of auxiliary transmission mechanisms, upon which royalties are due under the opinion, findings and conclusions of the Court, manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent, up to the date of this Judgment, and to determine the number of such auxiliary transmission mechanisms upon which royalties have not been paid,

and the amount of royalties due from plaintiff and payable to the defendant at the royalty rate specified in the aforesaid license agreement.

7. That the taxable costs of this action, other than the costs of the accounting provided for in paragraph 6 hereof, shall be divided between the parties, three-fourths to be paid by the plaintiff and one-fourth by the defendant.

(S.) Kirkpatrick, United States District Judge.

Dated: November 30, 1942.

[fol. 65] In United States District Court

Notice of Appeal—Filed February 27, 1943

Notice is hereby given that Alma Motor Company, defendant in the above entitled cause, hereby appeals to the Circuit Court of Appeals for the Third Circuit from that part of the final judgment contained in Paragraph 5 thereof, and entered in this action on December 2, 1942.

S. Samuel Arsht.

February 27, 1943.

In United States District Court

Defendant-Appellant's Statement of Points to be Relied Upon—Filed May 12, 1943

Now comes Defendant-Appellant, Alma Motor Company, by its attorneys, and states that the following constitutes the points to be relied upon by it on the appeal of the above entitled case:

1. The District Court erred in holding that transfer cases manufactured by the plaintiff-Timken-Detroit Axle Company designated as T-79, T-79-1 and T-79-4 do not infringe any of the claims of the Ruggles and Smith patent in suit No. 2,173,044.

2. The District Court erred in holding that claims 6, 8 and 14 are limited by the prior art to such an extent as to exclude the said transfer cases T-79, T-79-1 and T-79-4.

3. The District Court erred in holding that the above identified transfer cases T-79, T-79-1 and T-79-4 do not in-

fringe claims 7 and 9 of the said Ruggles and Smith patent in suit.

4. The District Court erred in holding that the said transfer cases T-79, T-79-1 and T-79-4 do not infringe claim 12 of the said Ruggles and Smith patent in suit.

[fol. 66] 5. The District Court erred in not holding that the above designated transfer cases T-79, T-79-1 and T-79-4 infringe claims 6, 7, 8, 9, 11 and 12 of the said Ruggles and Smith patent in suit.

Hugh M. Morris, Alexander L. Nichols, Attorneys for Defendant-Appellant.

I. Joseph Farley, Of Counsel.

Service of copy of the within statement of points on which defendant intends to rely on the appeal herein is hereby acknowledged this 12th day of May, 1943.

E. Ennalls Berl, Attorney for Plaintiff.

In United States District Court

Order as to Original Exhibits—Filed May 13, 1943

And Now, to-wit, this 13th day of May, A. D. 1943, the designation of defendant as to the contents of record on appeal herein having been brought to the attention of the Court, from which it appears that said defendant has designated the exhibits introduced by the respective parties at the trial of this cause to be transmitted to the Circuit Court of Appeals as physical exhibits upon said appeal. Now therefore in conformity with rule 75 (i) of the Federal Rules of Civil Procedure,

It Is Ordered by the Court that the following exhibits in this cause shall be transmitted by the Clerk of this Court to the Clerk of the United States Circuit Court of Appeals for the Third Circuit as physical exhibits upon the appeal herein, the same to be returned to the Clerk of this Court upon the conclusion of said appeal:

Plaintiff's Exhibits 1 to 109, inclusive.
Defendant's Exhibits 10 to 24 (c), inclusive.

(S.) Paul Leahy, United States District Judge.

[fols. 67-68] [File endorsement omitted]

[fol. 69] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

Appeal No. 8300

THE TIMKEN-DETROIT AXLE COMPANY, Plaintiff-Appellee

v.

ALMA MOTOR COMPANY, Defendant-Appellant

MOTION TO DISMISS APPEAL, COMPLAINT AND COUNTERCLAIM OR TO DISMISS APPEAL AND REMAND THE CAUSE TO THE DISTRICT COURT OF DELAWARE FOR APPROPRIATE ACTION—Filed August 25, 1943

Now comes Plaintiff-Appellee in the above-entitled cause and respectfully moves:

(a) That this appeal be dismissed and that this cause be remanded to the District Court of Delaware with instructions to vacate its judgment entered in this cause on December 2, 1942 and to enter a judgment dismissing the complaint and counterclaim because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768 or, in the alternative,

(b) That this appeal be dismissed and that this cause be remanded to the District Court of Delaware with instructions to reconsider its judgment in light of the War Department Order issued against the parties hereto on July 28, 1943, and to take such further action as may be appropriate in the circumstances.

In support of its motion, Plaintiff-Appellee states that after the opinion in this cause was rendered by the District Court, namely on October 31, 1942, Public Law 768, 77th Congress, Chapter 634—2d Session, a copy of which is attached hereto as Exhibit A, was approved by the President and became effective; that pursuant to the provisions [fol. 70] of said law the War Department on December 30, 1942, about twenty-eight days after entry of the judgment of the District Court of Delaware in this cause, gave notice to Plaintiff-Appellee and Defendant-Appellant that the royalties provided by the agreement of May 16, 1938, which forms the basis of this action, were believed to be unreasonable or excessive and ordered Plaintiff-Appellee to discon-

tinue payment of any royalties pursuant to said agreement until the making of a final order by the War Department, as provided by said Public Law 768; that Defendant-Appellant, pursuant to the provisions of Public Law 768, filed a written request, dated January 9, 1943, for a hearing; that a hearing was duly held by the interested officials of the War Department in Detroit, Michigan on or about February 8, 1943; that Plaintiff-Appellee and Defendant-Appellant were represented at said hearing and stated their respective positions concerning the royalties provided by said agreement of May 16, 1938; that Plaintiff-Appellee contended that the Ruggles et al. Patent No. 2,173,044, upon which said agreement of May 16, 1938 was based, was invalid in view of the prior art relied upon in this action and that, therefore, no royalties were due under said agreement; that, as shown by the attached affidavit, Exhibit B, and the War Department's transcript of the proceedings had at said hearing, a copy of which is attached hereto as Exhibit C, the War Department, speaking through Major W. L. Cockrell, who presided at the hearing, took the position that said Ruggles et al patent was invalid in view of the art of record in this action and that any royalty paid under an invalid patent was unreasonable; that, pursuant to said Public Law 768 and, after said hearing, the War Department on July 28, 1943 [fol. 71] issued an order entitled "Royalty Adjustment Order No. W-3", a photostatic copy of which is attached hereto as Exhibit D; that said order specifies that no royalties be paid Defendant-Appellant under said agreement of May 16, 1938 and directs Plaintiff-Appellee

> "forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under said licenses"

and to

> "reduce the contract prices of all supplies, equipment or materials, or parts thereof, which have been delivered or are to be delivered by Licensee to or for the War Department or to any contractor or subcontractor for the War Department but for which Licensee has not on the date of this Order received payment * * * to the extent necessary to give the War Department the full benefit of the reduction in royalty rates specified in paragraph (1) of this Order";

that Plaintiff-Appellee has manufactured and sold transfer cases coming within the agreement of May 16, 1938 only to or for the use of the War Department and, therefore, cannot comply with both the judgment entered in this action and said Order; and that said Order issued under Public Law 768, by the terms of said law, transfers jurisdiction of this controversy to the Court of Claims and withdraws from this Honorable Court and the District Court for the District of Delaware their jurisdiction of this controversy under the agreement of May 16, 1938, by substituting an action under section 2 of said Public Law as the sole action on said agreement of May 16, 1938 and the controversy involved in this action.

Wherefore, Plaintiff-Appellee asks that this Court issue a mandate

[fol. 72] (1) Dismissing this appeal; and

(2) Remanding this cause to the District Court of Delaware with instructions to vacate its judgment entered in this cause on December 2, 1942 and enter a judgment dismissing the complaint and counterclaim because of the transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768 or, in the alternative, issue a mandate

(3) Dismissing the appeal; and

(4) remanding this cause to the District Court with instructions to reconsider its judgment in light of the War Department Order issued against the parties hereto on July 28, 1943 and to take such further action as may be appropriate in view thereof.

C. A. Southerland, Delaware Trust Building, Wilmington, Delaware, Attorney for Plaintiff-Appellee. Of Course for Plaintiff-Appellee: William A. Strand, J. Matthews Neale, Strauch & Coffman, 1001 Fifteenth Street, N. W., Washington, D. C.

[fol. 73] EXHIBIT "A" TO MOTION

[Public Law 768—77th Congress, Chapter 634—2d Session]

[S. 2794]

AN ACT

To provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in ex-

cess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

Sec. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued [fol. 74] by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

Sec. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

Sec. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

Sec. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

Sec. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

Sec. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly [fol. 75] or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, ex-

cept that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

Sec. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10(1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

Sec. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

Sec. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

Approved, October 31, 1942.

[fol. 76] EXHIBIT "B" TO MOTION

IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

Appeal No. 8300

[Title omitted]

AFFIDAVIT OF JOHN E. GALLAGHER

COUNTY OF WAYNE,
State of Michigan, ss.:

John E. Gallagher, being duly sworn, deposes and says:

I am in charge of the Patent Department of The Timken-Detroit Axle Company and am personally familiar with this litigation, the War Department's notice and Royalty Adjustment Order No. W-3 relating to The Timken-Detroit Axle Company-Alma Motor Company agreement of May 16, 1938 and the proceedings leading up to issuance of said order, the transfer cases manufactured by Timken under the agreement of May 16, 1938, the prices fixed on such transfer cases and the royalties collected, paid and charged by Timken pursuant to the agreement of May 16, 1938; our records show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of Ruggles and Smith patent 2,173,044, have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; that, up to the date of the War Department notice of De-
[fol. 77] cember 30, 1942 ordering The Timken-Detroit Axle Company to discontinue royalty payments to Alma Motor Company, all royalties charged had been paid over to Alma Motor Company as provided in the agreement; that I have from time to time during my personal contacts with the personnel of the War Department been advised that the War Department's assertion of invalidity of Ruggles et al patent 2,173,044 and the issuance of said order is based on the art of record in this litigation; that Major W. L. Cockrell presided at a hearing held at Detroit on

February 8, 1943, to determine the fair and reasonable royalty to be paid Alma Motor Company under said patent and agreement; that Plaintiff-Appellee contended at the hearing that the Ruggles et al patent 2,173,044 was invalid in view of the prior art relied upon in this litigation and, therefore, no royalties were due under the agreement of May 16, 1938, and that Major Cockrell stated that the position of the Chief of Ordnance confirmed by the War Department's order, was that Ruggles et al patent 2,173,044 was invalid and that payment of any royalty under an invalid patent was unreasonable.

Further affiant saith not.

John E. Gallagher.

Sworn to and subscribed before me this 17 day of August, 1943, R. E. Grams, Notary Public, Wayne County, Mich. My commission expires February 29, 1944. (Seal.)

[fol. 78] EXHIBIT "C" TO MOTION

Transcript of Proceeding at a Meeting Held in The Tank-Automotive Center, Union Guardian Building, Detroit, Michigan, Before Major Wayne L. Cockrell

February 8, 1943.

Present: Major Wayne L. Cockrell, Presiding Officer; Lt. Colonel C. E. Herrstrom, C. S. Walker, W. A. Strauch, J. E. Gallagher, W. W. Schenck, I. J. Farley, Lt. Commander Ralph L. Chappell.

Major Cockrell: This hearing is called at the request of the Alma Motor Company, and is to be presided over by me on authority of a letter of the Under-Secretary of War, Robert P. Patterson, dated February 2, 1943, which will be included as an exhibit in the record in this hearing. (Marked by the reporter Exhibit "A" which is attached hereto and made a part of this transcript.) I will read it.

"Memorandum for the Chief of Ordnance

"Subject: Further Delegation of Authority under the Act of October 31, 1942 (Public Law No. 768, 77th Congress, 2nd Session).

"1. Reference is made to the memorandum dated November 20, 1942, as amended January 30, 1943, (herinafter referred to as the Delegation of November 20, 1942), of the Secretary of War regarding the delegation of authority under the Act of October 31, 1942, Public Law 768, 77th Congress, 2nd Session (hereinafter referred to as the Act).

"2. Such of the powers, duties and authorities conferred upon the Secretary of War by the Act as are referred to in clauses (2) and (3) of paragraph 1112.8 of Schedule 1 annexed to the Delegation of November 20, 1942, are hereby further delegated, with respect to the agreement referred to in the Notice dated January 4, 1943, a copy of which is hereto attached, marked Schedule A, to Major Wayne L. Cockrell, Production Service Branch, Detroit Ordnance District Office, whose action under this delegation will be subject to review and approval by the Chief of Ordnance and, as provided in clause (3) of said paragraph 1112.8, to the approval of the Director, Purchases Division, Headquarters, Services of Supply.

"3. The powers, duties and authorties conferred in the Delegation of November 20, 1942 to the Chief of Ordnance and Deputy Chief of Ordnance, as well as the powers, duties and authorities herein conferred upon Major Cockrell, may be exercised with respect to any contract, subcontract, or purchase by the War Department involving the agreement referred to in Schedule A. In the exercise of such powers, duties and authorties, herein referred to, the representatives of the Ordnance Department will consult with representatives [fol. 79] of any supply service known or believed to be concerned, and will be under the direction of the Under Secretary of War."

The parties interested are The Timken-Detroit Axle Company, who are the licensees under this patent, and the Alma Motor Company, who are the licensors. This hearing is being held at the request of the latter. I will read a letter from the Alma Motor Company to General L. H. Campbell, Jr., Chief of Ordnance, dated January 8, 1943 (Exhibit "B.")

"My Dear General:

Re: Ruggles and Smith Pat. 2,173,044.

"This will acknowledge receipt of the notice under the recent 'Public Law No. 768' at our Alma plant and dated December 30th, 1942, informing us that the royalties now being paid under the above-identified patent are believed to be excessive. We are quite surprised at your belief, and feel certain that a full discussion of the facts will enable you to alter your belief. We accordingly request a hearing as soon as possible wherein the facts known to us may be presented to you. If any special form is needed under the Law for us to obtain such hearing, we wish you would send us a copy thereof, as procedure under this new Law is something our attorneys seem to be quite hazy about.

"We wish you would send further correspondence in connection with this proceeding to our Detroit Office, with a carbon addressed to George Rex Frye, Esq., % Chas. M. Havell, 456 Munsey Bldg., Washington, D. C."

Unless there are some objections, I think we will hear first from the Timken-Detroit Axle Company.

Mr. Strauch: The agreement under which royalties are being paid was made in settlement of the interference in about 1938 or 1939, and at the time the settlement was made, it was made as a matter of business expediency. Not much business was involved, and the cost of litigation and proving the dates was determined by the Timken Company at that time to be more than the amount of royalties that would have to be paid in accordance with the settlement. That agreement speaks for itself.

The interference originated in the application filed by the Timken-Detroit Axle Company at a time when we did not know the whole facts as to the development of the mechanism. The material for the application came through to us as a routine matter several years after the basic development had been done and after the cases had been [fol. 80] in use. Took several years in development, then they were sold, and then within the statutory period after these cases had gone into production, the design came to us to be filed in the routine way and we examined the thing

and did not find anything particularly that would stop the patent from issuing, and the further reason for filing it at that time was that the Marmon-Herrington Company had told Timken they were filing on it. The construction was made for Herrington, and as between Herrington and the Timken-Detroit Axle Company, we felt quite sure that it had been originated by Timken and they *they* had filed the application and put in all the detailed designs.

In the course of the prosecution, all of these applications appeared—the Ruggles application came in and Herrington's application also came in and the Timken application came in. Claims were made for the purpose of interference. When the interference was declared, we went into the history of the whole development. I investigated personally at Camp Holabird and we reached the conclusion then, as a result of information gained at that time, that the whole development had been originated by the Government if there was anything patentable in it.

We then got in touch with the Alma Motor attorneys and showed that we had certain prior art uses, the Spicer use and two or three other designs that had been turned up and the T-9 design which the Wisconsin Axle branch of Timken had made, but had only made three cases of and that was completely overlooked at Timken. As a matter of fact, it was turned over to Holabird and they finally dug up the drawings from Timken.

So we got into the conference for that settlement and it was agreed all around that the number of the claims that were initially filed were unpatentable and the agreement was made then to disclaim some of the claims. We agreed to concede priority on anything that might be patentable on the theory that nothing had been left in there except possibly the subject matter of four claims which we had not become involved in, in the interference, which was because we could not make them. We had no basis of claim to make interference on those claims and we were not making that type of transfer case and we did not know whether or not [fol. 81] the claims would be held valid later.

We went into that agreement with the understanding that the prior art, which included the Spicer transfer case, would be brought to the Patent Office's attention and the claim disclaimed, and we conceded priority to settle the matter. We felt that the most that would come out of that

consideration might be these first four claims, but the history of the prosecution was that this art, and those uses were not brought to the attention of the Patent Office at all, but an argument developed at the conference as to whether the additional claims were patentable. The patent dated from the development work at Camp Holabird which resulted in the Spicer case.

We depended on The Patent Office to take care of that. We figured if the Patent Office had these prior uses under examination, it would determine whether or not any claims could be approved, but the prior uses were not called to the attention of the Patent Office, and the patent issued. Immediately on its issue, we sent notice that we were not going to be bound even though we were licensees. We were not going to be bound to pay royalties under a design which was incorrect and upon claims which were invalid. After all, those, in my opinion, read directly on the Spicer uses, and I think the court's decision makes that the case, and we gave notice that we would only be bound in the transfer cases under the first four claims, and made payments and continued to make payments in that way.

The matter then got into controversy as to the balance of royalties due. Alma took the position of claiming royalties on all cases then in the making. We found we were not going to be able to stay out, and then on behalf of Timken we filed application for a declaratory judgment—filed two applications—one asking for limitation of scope, and the other asking that the claims be held invalid. The court gave a ruling on the scope, because they were patent successors of the licensors. There were two things the court did not do. One of them was that among the designs that were given by Holabird to Spicer, there was almost a duplicate of the T 32 type of case which is now being made, and shown in the [fol. 82] Ruggles & Smith application, and that was not considered at all by the court because Spicer was making a high speed type of transmission and they adapted their own transmission to this design, but the print that was given by Holabird to Spicer at that time for development with the Spicer case is not under the interpretations given by Judge Kirkpatrick in that decision. The claims read on the Holabird design, so, under the circumstances, it is our view that these claims just are not good. The court held three or four of them that read directly on prior art infringed on

the interpretation we were licensees. If we were not licensees, the court would have held these claims invalid.

In disposing of the Spicer case which was designed at Holabird in April and was actually sold to White in September, delivered early in October, and tried out by Holabird early in November, the court in order to dispose of that design, ignored the earlier lay-outs completely, and awarded conception on just the single gear drawing instead of the whole case. That is, the October drawing upon which the court awarded conception, was long after the conception of the Spicer job and was actually after the first sale, as the Spicer case was on sale certainly in September, because there was an order given by the White Company to Spicer on September 15, which was a month before the earliest conception. Then, in its opinion, the court said that he thought the Spicer design was different because of a different method of shifting the gears, but even that method of shift was in the Holabird designs that were given to Spicer.

Now, on the first four claims, we thought in the beginning and until we really got into the records that were turned up at Holabird when we took depositions, that there might be a possibility of those claims being held valid in view of our situation. There were cases developed in 1932 with that same type of de-clutch on the bottom shaft—what they call the internal de-clutch—that in 1932 were also given to Holabird. The difference between those claims and the earlier case was the use of the de-clutch on the bottom shaft to declutch the front wheels.

[fol. 83] Of course, we tell you those claims are invalid on the work that was done by the Government at Camp Holabird and the cited art directly. Even giving them the benefit of Judge Kirkpatrick's decision they still were first shown in the drawings of a design that was not built by Spicer. They made a selection. There was a chance for disclosure of all of this Holabird work to Mr. Ruggles. According to the record offered at Holabird, Holabird knew about his interest in this development in June 1933. It is shown in one of our reports.

At that time there was a large PWA order to be placed. The truck makers were anxious to get in on the business, and designs were broadcast, and the specifications were open to anybody—anybody could come in and get them. Ruggles was in there in June, and the Timken Company sent out its

designs of these cases in December of 1933 and January of 1934 and sent designs up to the Alma Motor Company in January of 1934, and finally at that time our records show Ruggles had used a single speed case. The first evidence they had that they had a two-speed case at all was in 1935, and in 1935 they sent it to Holabird, but they didn't file until about a year after that upon our own design. The record in that case also says the work in 1933 was on a single speed case. They actually bought gears from us in September 1933 with a single speed case, and on that record, I don't see how they can possibly prevail as far as the finished T-32 type of development is concerned, even agreeing, we conceded priority without a knowledge of the facts. After all, we are not asking for the patent ourselves, and that is as far, I think (and we have decisions to that effect), that that is as far as this estoppel should go. Even if they could do it, they should not tie the Government's hands or tie anybody's hands on a case that was disclosed to them a year before they filed their application.

Major Cockrell: When was this agreement in regard to the case entered into between yourselves and Alma?

[fol. 84] Mr. Strauch: I think it was in 1938. At that time it was a bad business year and we thought there would not be enough cases sold to pay the cost of fighting out an ordinary interference, let alone going into a situation of this kind.

Major Cockrell: What about the royalties which have to be paid to the Alma Motor Company?

Mr. Strauch: After we receive the notice in each of the cases, we refused to pay. They wrote us a letter saying they were going to disclaim one of their claims. We think the patent is invalid for that reason. We have a letter from their attorneys, but of course the court did not agree with us on that. Nevertheless, I don't think that the royalties are payable at this time.

Mr. Gallagher: We can give those figures.

Major Cockrell: We would like to have those figures. Possibly there are some claims that are being held by the Timken Company.

Mr. Gallagher: That is right; that we would consider payable.

Major Cockrell: Under your agreement they would be payable?

Mr. Strauch: I don't think they should be, although we are paying them, because we were licensees and because we had those claims before us at that time and we recognized those claims. They were the only ones claimed at that time and I recommended paying because we were not in a very good position not to pay on those particular claims.

Major Cockrell: That is the first four claims?

Mr. Strauch: That is right.

Major Cockrell: There are still royalties under those first claims which you have not paid?

Mr. Strauch: That is right.

Major Cockrell: And those claims have entered into certain cases you have made for the Government?

Mr. Strauch: That is right. The amount is not very much—not as much as Timken is doing. Timken makes a large size job and while royalties were claimed on those jobs, the court's decision has confirmed our position. We never agreed that royalties were due—royalties were never charged on them, and the Government had bought the T-79 [fol. 85] case, and that is the largest Timken volume, but all similar vehicles use this same case. Whatever is done here, as far as Ruggles & Smith design is concerned, is going to apply, I guess, to everything under a ton and a half that is used in the Army and to some larger sizes made by others. As a matter of fact, I think all transfer cases made by others than Timken fall under this patent, if it is going to be given any scope at all.

Lt. Col. Herrstrom: The notice which was served included a reservation to the effect that the Government might, at some later date, seek to reach the royalties which had been accumulated in the hands of the Timken-Detroit Company and which have not yet been paid. What attitude did the company take in respect to any reservation?

Mr. Strauch: That the Government is entitled to it. The royalties were charged. The company was collecting them for the people who were entitled to them, and if the Government has paid them, it is entitled to those royalties back.

Major Cockrell: I think we ought to hear from the Alma Motors Company.

Mr. Farley: I have a copy of the agreement which I would be glad to introduce in evidence. I was wondering what remarks Mr. Strauch had to give us about the reasonableness of the royalties. I have not heard any comment on that

yet. Or course, it very obviously seems to me that the Timken Axle Company, having entered into a contract—in other words, to use the vernacular,—tried to welch on it. Now practically all of the contentions that are made here by Mr. Strauch could have been raised by Timken if they saw fit to contest the interference, which they did not see fit to do.

Major Cockrell: That is at the time the interference agreement was made?

Mr. Farley: Yes.

Major Cockrell: Was all this information included?

Mr. Farley: I could not say, because I was not in the case at the time. It was handled by Mr. Frye at the time.

Mr. Schenck: Everything was laid on the table and we went over it with a fine-tooth comb.

[fol. 86] Mr. Farley: The matter was thoroughly threshed out before Judge Kirkpatrick who wrote a very scholarly opinion, I would say, and it seems to me now that what Timken is trying to do is to make this Board a Court of Appeals to review Judge Kirkpatrick's opinion. Now they could resort by appeal to the Circuit Court of Appeals, and judgment was only entered on November 25, 1942, so if it is a question of the validity of the patent and all that sort of thing, I don't really know what scope your board has. I doubt very much that you would pass judgment on the validity of a patent. Of course, the Timken Company was the moving party in this suit, and Judge Kirkpatrick made an able attempt to rule on all of the defenses raised which are now propounded by Mr. Strauch. Of course, there are one of two things they can do. They can give up the license if they want to attack the validity of the patent. We don't want to agree to give up the license and they want to overrule Judge Kirkpatrick merely on the contention of validity. We think, however, the motive should have some weight on the question of the reasonableness of this royalty. The contract you have here shows that the royalty is only fifty cents per transfer case, and it is our understanding from Mr. Schenck that the price of the transfer cases is in the neighborhood of one hundred dollars. That would make a royalty of one-half of one per cent. Now, if there could be anything more reasonable than that rate of royalty—one-half of one per cent, I don't know what it is. Perhaps the Timken Company may have a proposition; they may want to make it one-one-hundredth of one per cent.

Major Cockrell: Under this law, the Government is not estopped in the same way that the Timken Company would be estopped on the question of whether the patent is valid or not. Before the Government begins to pay a royalty, it would determine whether the royalty is reasonable or not.

Mr. Farley: I realize that, but it was the purpose of the board to go into this question of validity, and I suppose we would have to go through an ordinary suit at law and present all the evidence available. I don't think the Board would have sufficient information to make a decision on the statement of Mr. Strauch without any evidence on the point. It seems to me that the situation as it stands right now——

[fol. 87] Mr. Strauch: There are one or two things I want to answer, Mr. Farley. I did not know in 1938 that the Alma Motor Company had bought the three-speed gears in September of that year. I did not know that, but I don't know that it would have made any difference then. It is a vital fact in showing what they were doing. Again, he says, "Why don't you cancel?" I answer that by saying, "We have no cancellation clause in the agreement and we cannot cancel."

Major Cockrell: It seems to me there was something of that kind. Is that right, Mr. Farley? That there is no cancellation agreement in that contract?

Mr. Farley: I don't know. This was dumped into my lap Saturday afternoon, and I haven't had the time to go into it. Rex Frye was handling that, but he is in Washington at this time. He is with the Alien Property Custodian there. The matter has just been turned over to me.

Major Cockrell: Are there any other unlicensed manufacturers of this same transfer case?

Mr. Strauch: Yes, sir, I think the Ford Motor Company is among them. But if they don't operate under license, they probably are buying from a licensed or unlicensed manufacturer. Willys-Overland manufactures jeeps, I understand.

Major Cockrell: If your company can substantiate that, you can get out of the agreement under Article 8.

Mr. Strauch: We don't have to get out of the agreement under Article 8. We gave notice and if suit is not filed, we are entitled to cancel the agreement, if we can cancel without paying royalties, and we served notice after the litigation was brought, and as to that provision we are probably even paying royalties anyway, but as to knowledge of the

facts that this board has complete evidence as we have, based on work that was done at Camp Holabird, and there was some work also done for Ordnance over at Aberdeen. But the thing was tested at Aberdeen, and Mr. Walker, who is here present, investigated all those records, and men were assigned by the quartermaster's group to see to it that when we took the depositions at Camp Holabird no valuable military information got out, and some of the material was withheld from us and Mr. Walker is fully fa-
[fol. 88] miliar with all that background. He also was present at the trial, so the Board really does have the information and has had the records of that suit.

Mr. Farley: May I ask a question, as I am more or less of a novice in this particular matter? My understanding of Judge Kirkpatrick's decision and the statement made is to the effect that all the evidence in the Holabird use was placed before Judge Kirkpatrick?

Mr. Strauch: All the evidence we could get.

Mr. Farley: You got all the evidence there is. All that you could get. Are you going to manufacture some more in the meantime or not?

Mr. Strauch: I don't manufacture evidence, Mr. Farley. I know you don't. I would not accuse you of that, but the situation with respect to this suit was that if they had been reasonable about the scope of the thing, it probably would not have been litigated, but they asked us to pay royalties on everything we were making and we had gone and set our price to the Government charging royalties only on such things that we thought were going to be under the first four claims. But they wanted us to go ahead and buy for the future, if we were able to get it, but we were to pay these royalties in very large sums, on past business, so that the litigation was brought on for that reason, and for another reason that Mr. Walker may or may not know. I don't know whether he was with the Quartermaster's group at that time, but Mr. Smiley, who was in the Quartermaster's group, asked us to check it up because all these other vehicles that would be involved were using these cases, and we stuck our necks out to that extent, although we did have a break, at least. We did get a decision clearing all these other cases. But we were asked to go ahead with it by Mr. Smiley, who represented the Quartermaster Corps at that time.

Mr. Schenck: In the first place, we don't claim royalties on everything they make. We only want our claims one, two, three, and four.

Major Cockrell: Only the first four—one to four?

Mr. Schenck: No, not that. He says they claim it, but we don't. They went to Camp Holabird the 18th and 19th and dragged out all of these old records and found day after day they used our design and are still using it, and the Government paid for it. We never claimed that we made [fol. 89] the four wheel drive. What we did was take a drive and simplify it with a new set of gears. We did not invent the four-wheel drive. We heard of it after it had been used some time. That all came out during the trial. Those things that he has mentioned, we did not claim them at all.

Mr. Strauch: The answer to our bill claimed they knew nothing about the Ruggles and Smith invention, never made claims to that effect. What happened, Ruggles and Smith died and the claims were expanded, and the claims five to twelve covering the subject matter that Ruggles and Smith never swore to at all, and I don't think there is a supplemental oath in the file. The inventors themselves never claimed to have invented anything. But they claimed the four-wheel drive.

Mr. Farley: Why didn't you mention all these things in the sessions?

Mr. Strauch: I was ready and willing, but my client did not want to put up the money.

Mr. Farley: Isn't that rather a belated sort of thing, after they entered into a contract like this on which at that time seemed to them to be the most convenient reasons, they now are trying to take the whole thing back.

Mr. Strauch: Contract says and still says that we pay on the inventions that Ruggles and Smith made. We didn't agree to pay on anything else. It was an obligation and we agreed to pay on all the inventions of Ruggles and Smith.

Mr. Farley: The contract speaks for itself.

Mr. Strauch: It sure does.

Major Cockrell: This particular proceeding is not instituted by the Timken Detroit Axle Company. This proceeding has been instituted by the Chief of Ordnance.

Mr. Schenck: The main question is whether or not these royalties are excessive.

Major Cockrell: Any royalty is excessive if the patent is invalid.

Mr. Farley: I think I would agree to that. What is the further proceedings, Major? It seems to me, of course, that if the Board are contemplating going into the question of the validity of the patent, would it or should it not be [fol. 90] decided by the presentation of full evidence that the Alma Motor Company have, and the right to be represented by a counsel, to cross-examine, and all that sort of thing.

Major Cockrell: I don't believe so. It is not proposed that there shall be any argument in this proceeding at all. This hearing is for the purpose of hearing anything you fellows want to present in writing or orally bearing upon the decision of the Chief of Ordnance to order that these royalties shall be something different than they are now.

Mr. Strauch: The answer to Mr. Farley's question is that the law provides for action in the Court of Claims.

Major Cockrell: Yes, and your claimant has an opportunity to recover in the Court of Claims under the law.

Mr. Farley: Yes, I know that. Well, then, of course, the attitude of the court would be whether it is or is not a question of the reasonableness of the royalty or more a question of royalty or no royalty?

Major Cockrell: No, I would not say that. You have a statement in there that the patent is invalid.

Mr. Farley: Yes.

Major Cockrell: The opinion of the Chief of Ordnance is that the patent is invalid.

Mr. Farley: I haven't any of that evidence before me. I am going on Judge Kirkpatrick's opinion, and I am afraid that is more strongly than anything else.

Mr. Schenck: Of course, we don't think that.

Major Cockrell: If I am correctly informed, the depositions they were referring to at Camp Holabird, while they were taken by Judge Kirkpatrick, they were not permitted to be read into the record on the trial.

Mr. Schenck: Yes, they were—all of them. Everyone of them.

Major Cockrell: Then I have been misinformed. They went over each one of them?

Mr. Schenck: Yes, they were all gone over.

Mr. Strauch: They were not read into the record, but it is true they were introduced.

[fol. 91] Mr. Schenck: They would come down with blue prints one day, and the next day would prove our record didn't show that. There was a lot went on there.

Lt. Com. Chappell: Is a copy of that record available?

Mr. Schenck: We haven't a copy but Rex Frye has a copy of it. All these things that he spoke of about in regard to Spicer and everything were gone over every day.

Mr. Strauch: The depositions were summarized and were offered into the record, but the court did not allow them to be read.

Major Cockrell: The court refused to consider those depositions.

Mr. Strauch: Just waived them aside.

Major Cockrell: Timken was estopped from offering any evidence on the validity of the patent?

Mr. Schenck: We made a motion to set aside all the evidence before he did that. He didn't rule on that until he heard our evidence and had gone over each and everything.

Mr. Strauch: He did decide that we were estopped to contest the validity. He did decide that.

Major Cockrell: This contract will be offered in evidence.

(The contract in question was marked for identification Exhibit "C" and is hereto attached and made a part of this transcript.)

Lt. Col. Herrstrom: What was your authority, Mr. Strauch, in introducing your deposition into court? Were you going on the theory that they tend to limit the claims or invalidate them?

Mr. Strauch: They invalidate the claims. They never did anything else. The only difference between the Ruggles & Smith design and the Holabird design was that they did not use the same jaw clutching mechanism for shifting the lower gear in and out of engagement, and the claims of Ruggles and Smith were broad enough not to be allowed on it. The very same gear was old at Camp Holabird. They had both a Timken job of a gear with a sliding clutch on the top shift with both engaging gears acting as a coupling, and they also had a Spicer job,—a synchronizing job where you did not use a high mechanism to clutch with the gear—

and the only ruling could be invalidity. For there is no room for difference in scope.

[fol. 92] Mr. Schenck: These models they speak of were made and sold long before we got into the picture, but the Army doesn't want them any more. We proved very clearly that there is a difference between these old jobs and ours. We sold these and everything was fine before they quit buying them. They don't want them. Ours are different. They are new. They wanted them.

Mr. Strauch: Your application was not filed until over a year after the Timken type was sold to the Government?

Major Cockrell: These Spicer cases that are now being manufactured for lighter vehicles, do they infringe your patent?

Mr. Schenck: Yes, we think so—we think they do.

Major Cockrell: Any action being taken against the Spicer people?

Mr. Schenck: No, sir!

Major Cockrell: For what reason?

Mr. Schenck: We didn't have the money. We didn't have money to hire an attorney. Had to go out and make a deal. Didn't have a penny of any kind. They had all the money and we didn't have anything to do with it.

Mr. Strauch: Have you made a deal with your present attorneys?

Mr. Farley: What was that?

Major Cockrell: I don't think we are interested in that. I think Mr. Farley can look after himself.

Lt. Com. Chappell: Mr. Schenck has spoken of the difference in construction between the two jobs—could you state in detail what those differences are?

Mr. Schenck: These jobs were brought out year after year though they had made some and sold to the Government. During the trial they brought all this out and showed they had made a sale and we came along and showed that our job was different from theirs. The Government quit buying those jobs. The kind they are buying today is our job. Does that answer the question or not?

Mr. Strauch: I cannot tell you how your jobs were, Mr. Schenck, but I know ours are different. The drive came out from the lower shaft and that required the use of what was a non-standard axle. When the Government went to the type of design it is now using, we wanted to use a drive

on the upper shaft and use a standard axle so that they would not have to throw an offset. Both Timken and others [fol. 92½] went ahead and put the regular transmission on the top shaft like any other automobile drive and that made a difference in the design. The Timken Company is the one that sold that to the Government and sold it to the trade generally for over a year before the Ruggles & Smith applications were ever filed. The Alma Motor Company never did have that kind of a job because there is no question of the Alma Motor Company making the design and then doing all the creation before Timken did that. They never did and the court record never showed they made a single transfer case of that kind.

Major Cockrell: How many cases have you made under this Ruggles & Smith patent?

Mr. Schenck: About fifteen. We did not have the money. We designed it and tried to raise money by selling stock and raising money that may, but a lot of things happened and we never got started. If you want the difference between our job and their job, I can bring our engineers in. That is too complicated for me. I would appreciate being allowed to do that. There is a difference—there is no doubt about that. I would like to bring them in and show you.

Mr. Strauch: Mr. Schenck's statement does not conform to the record to this extent that Mr. Kysor, the engineer who testified at the trial, said they were of the Kysor design. They didn't use the Kysor design because they did not have the money to develop their own but because they thought the Kysor design was better in 1935. That is in the record. They had intended to go to their own design although Kysor, the engineer, proved his design was better than this one.

Major Cockrell: What does Alma Motor Company do. What do they make?

Mr. Schenck: Build stock tools, bolts for Defoe——

Major Cockrell: Nothing of this kind?

Mr. Schenck: No. We are running twenty-four hours a day.

Major Cockrell: But you are not doing anything of this sort?

[fol. 93] Mr. Schenck: We were closed down. We didn't have a penny when the war came on and we borrowed $350.00 and opened up. We just didn't have the money.

We did well after we got started. We are still just a little outfit. We have got 79 men working there twenty-four hours a day, and we are doing a pretty good job, as good as we can, but we were hampered by lack of funds. Our work seems to be very satisfactory to everybody we deal with. It is the only way that we could get into something and put our machinery to work.

Major Cockrell: It seems peculiar that you should be able to raise money to produce other items for the Army and Navy and yet are not able to raise capital to produce an invention which belonged to you.

Mr. Schenck: This was produced at a time when we did not have any money.

Major Cockrell: There is a demand throughout the country for this particular invention. You can raise money to produce other items for the Government, but you cannot raise money for this.

Mr. Schenck: Timken is making it and other people are making it. We would not have the money for the tool cost on a thing of that kind.

Mr. Farley: There is quite a distinction between that kind of production.

Lt. Col. Herrstrom: Is Mr. Strauch correct in saying you made a single and double transfer case?

Mr. Schenck: We went over everything at the trial. We made a single and double. They took our drawings and had their attorney go over the patents and also Mr. Herrington and Mr. Heald go over it. Naturally they would not sign a contract and pay us $1500.00 until they were satisfied we antedated them. We proved that.

Lt. Com. Chappell: Can you give us the relation of the case to the chassis?

Mr. Schenck: What do you mean by that?

Lt. Com. Chappell: How would you do it—extend the shaft to the front wheel?

Mr. Schenck: Came out of the bottom. Came back and dropped down to the bottom.

[fol. 94] Lt. Col. Herrstrom: Your forward shaft was in a low position relative to the shaft on the rear?

Mr. Schenck: Yes, to the front.

Lt. Col. Herrstrom: So that you had the low shaft on the rear.

Mr. Schenck: Sir?

Lt. Col. Herrstrom: Do you have a de-clutch element?

Mr. Schenck: Yes.

Lt. Col. Herrstrom: Single or double?

Mr. Schenck: Single and double both. When you get to that point, I want to call in my engineers; I cannot testify to that. They know more about that than I do.

Mr. Strauch: They put that single speed case on the market, offering it for sale in 1934; that was after they offered it to Holabird. In May of 1935, they still sent a cut of that single speed job up to Holabird. That was developed in the deposition and the Timken case was delivered and sold early in January of 1934, but their single speed case is not on the market.

Mr. Schenck: We had ours in the field in 1933. We went all over that at the trial.

Major Cockrell: Doesn't it seem a little peculiar that Timken entered into this agreement with Alma, promoting Alma's prior claim to the invention and then all of this stuff comes up again now?

Mr. Strauch: Yes, that was due to the fact that we thought they might have something in the first four claims. The agreement was made with the understanding that this whole thing would be submitted to the Patent Office and the Patent Office would determine what was patentable and what was not and that was never done.

Major Cockrell: Does this agreement show that the prior art situation was to be aired in the Patent Office?

Mr. Strauch: No, but it specifically disclaims two types of design. Did not mention the Spicer design at all—there were two agreements. There was one agreeemnt that mentioned the specific cases from which the disclaimer was [fol. 95] made and that was the first signed agreement; and then the later agreement that was put into effect. There are two agreements—they were within a few weeks of each other.

Major Cockrell: This agreement which Mr. Farley has given us was the 16th of May and I have another agreement here the 26th of May.

Mr. Strauch: The 26th of May is the one that went into effect.

Major Cockrell: Which is the one the Judge referred to in his decision? He says that the one that governs (he refers to it in this way)—as the "governing" agreement.

Mr. Strauch: In the 16th of May agreement, the first one, you will find a statement that the claims that were disclaimed were disclaimed from the uses standpoint on T-9. They did not go into the Spicer job, and the testimony and the record confirms this in that the Spicer job was to be submitted to the Patent Office and if they could get back of that Spicer job and get these claims approved, that was O. K. But they did not call the Spicer job to the attention of the Patent Office, and that is why, when the demand for the patent came up, we refused to pay them anything except the first four claims just as soon as the patent came out.

Mr. Schenck: When we entered into this agreement, they had Mr. Strauch and Mr. Davis and Mr. Hahn, of Hood & Hahn, to go over them. They did not agree to anything of that kind. Why should they agree?

Mr. Strauch: In that May 16th agreement you will see that the Spicer was not mentioned at all as a basis for any disclaimer.

Mr. Schenck: They had it at the meeting, and had the drawings and went over everything.

Major Cockrell: What they might have had at the meeting is of no importance. This merges into the agreement. All these meetings were merged into that agreement. I have not seen this agreement before.

Mr. Schenck: That is what they agreed to in the agreement. That is the result, right there.

Mr. Strauch: Based on the disclaimer and they contended they would not agree that they could not beat the Spicer date. We said "all right, if you can beat the Spicer date and get the claims, they are good claims and we will enter into the agreement," but the Spicer date was never put up to the Patent Office with the claim. I think we can point [fol. 96] that out in the agreement. Isn't it peculiar that it was not mentioned in the agreement? It was certainly at the conference.

Mr. Farley: I would like to ask if I could respectfully ask a question as to whether or not there is any contention there was a waiver of the rule of law that parties entering into a contract must be bound by the terms of the contract.

Major Cockrell: This board is not interested in enforcing any contract.

Mr. Earley: I understand that. But that refers to things that were agreed on but not put in the contract.

Major Cockrell: I don't know anything about what is not in the contract. There is nothing in the contract between Timken and Alma Motors Company to that effect.

Mr. Strauch: That Timken—Alma job, and that is the basis for this disclaimer—they would not agree that the Spicer job was ahead of it and they were going to convince the Patent Office, and file affidavits that they were ahead. This was the early case. The large size types were like that. That was the Spicer gear and in this one the T-9 case, the drive was shifted in the usual way by having a sliding gauge on the top shaft. Spicer's case had a synchronizing or constant transmission gear and they had the two or three transmissions on the bottom gear and they had a standard transmission method of protecting the shifting of this speed shaft, a lock transmission shaft and pilot bar. This shank is extended out to drive the gear and when we made that agreement, we had this Spicer job, as Mr. Schenck stated, and the reason it was not mentioned in the agreement was the reason I have told you, and there could be no other reason. They would not agree then, that this was ahead of it—that is the Spicer job. There were two jobs worked out by Holabird. They had these designs and they had his designs and they called Spicer in and gave Spicer the choice of making the Wisconsin axle job with this type of declutch in the job.

Major Cockrell: Who called Spicer in and told him that?

Mr. Strauch: Holabird, and they gave them two layouts. They gave them another of this type. Spicer bid on this job when they had it and then lost the business because it was more expensive than the Timken job, but if there ever was any evidence, this early agreement which was superseded by the other one, is clear evidence that the [fol. 97] Spicer job was not the basis for our disclaimer at all. What we said was the date should have been the governing thing but the Spicer disclosures should have been called to the Patent Office's attention with affidavits filed going back of it. We had something put over on us—that is all that happened there.

Mr. Farley: I am very much surprised that Strauch should—that an able attorney like you,—that anything was put over on you. I did not think that was possible.

Mr. Strauch: That happened to me.

Mr. Schenck: That is a joke. Anybody putting anything over on Timken.

Major Cockrell: What facts did you expect to present with regard to the reasonableness of the royalties? That is the reason you requested the hearing.

Mr. Schenck: That is right. We read your notice and supposed that is what it was. Better let Mr. Farley speak on that subject.

Mr. Farley: I think I covered the subject thoroughly in the remarks I made a while ago, my understanding being so. Is that correct, Mr. Strauch, that the transfer cases are sold to the Government at the price of $100.00 a piece?

Mr. Strauch: That is right.

Mr. Farley: A fifty cent royalty for a one hundred dollar job seems to me speaks for itself. I could not argue more than give you these figures. We men who are in the patent business know that a 5% royalty ordinarily is considered a reasonable royalty, and I think and know it is one that has been adopted by the courts more frequently than any other one I know of, when it comes to setting a reasonable royalty.

Mr. Strauch: What designs do you say—the designs are all identified specifically in that record—what designs do you say they are entitled to royalties on?

Mr. Farley: I have not the slightest idea in the world. As I say, all I know about this case is what Mr. Schenck told me Saturday. A fifty cent royalty is covered by this contract, and, of course, all these a, b, d, t's and x's don't mean anything more to me than an arithmetical proposition.

Mr. Strauch: On the T-43 type has the Government been charged that royalty? On T-32, if that rate has been paid, Timken will have to pay them on that basis in the future. Of course I suppose the Government ought to be willing [fol. 98] to pay for future business whatever the price is going to be to that extent. There are thousands and thousands. They claim royalties on each one in their answer and they continued to claim royalties until the 3rd day of the trial on each one, and then they withdrew claims on a large number of them. Is that royalty supposed to stick if the board disclaims any royalties on it for all design numbers?

Mr. Schenck: That is correct. Our attorney, Mr. Frye, at that time, stated that the one on which we claim. We withdrew from the other.

Mr. Farley; The opinion definite stated that three different types were not covered by the claims. May I make this suggestion? It seems to me it thrusts a lot of work on the engineers. I think, on behalf of Alma, we could agree, if it would be of any assistance to you, and I assume that you have in your files assembled drawings of all these various types of construction. Now I also assume that the Government is not making purchases, or is not interested in the purchase of every one of this conglomeration of things. I assume there must be one or two standard designs that have been approved. Is that a violent assumption or not?

Mayor Cockrell: How many of these transfer cases are you interested in purchasing?

Mr. Gallagher: I could not tell you that.

Mr. Farley: Could we ask—I realize that there may be some good military reasons why the Government would not want to send out drawings of what is being manufacturned for it, but I presume probably if I produce a verified certificate that might be sufficient to submit drawings made for Alma to their counsel, either myself or Rex Frye, and, of course, understand, I am sort of pinch hitting here today for Rex. Until the Government specifically states what types of transmission are now being used by the Government, how is the Alma Company, themselves, to know they are entitled to royalty.

Mayor Cockrell: I think we should have that information in order to check one against the other.

Mr. Schenck: Those numbers there are all Timken's. We do not have their drawings. We have some of them, but I don't know just how many we have.

[fol. 99] Mr. Farley: As far as Spicer is concerned, you appreciate, I am not able to answer more fully your questions, particularly as to why they have never satisfied Spicer. Of course, as far as that is concerned, Spicer is manufacturing for the Government and we cannot sue them now. No can do. The only course is, sue the Government in the Court of Claims. Anybody that will try to sue the Government now would be a darned fool. We better wait until it is all over before we sue the Government. At least I would not be a party to such a suit at this time.

Major Cockrell: It is not improbable that the result may be, of your royalties there, Timken will be in the same category and as to those who may be claiming from Spicer, we think that they will be settled in the Court of Claims after the war is over.

Mr. Strauch: If you are going to talk about thousands, I think you should speak of the thousands manufactured by Ford, Spicer, Chrysler, General Motors and others because I think the whole thing ought to be cleared up.

Mr. Farley: That is a lot of territory. I may have to step out of the picture if you are going to include Ford.

Mr. Schenck: If they don't live up to their contract, we are not going out and sue anybody. If we cannot collect from them, we certainly cannot collect from anybody else, so we ignore it.

Major Cockrell: There is another question there might be an answer to. You have a contract with Timken for royalties—why don't you sue Timken on their royalties?

Mr. Schenck: We told them before the way that we wanted them and they started a suit on the company.

Major Cockrell: Who won the suit? Why didn't they get the money?

Mr. Schenck: I don't know.

Major Cockrell: I am not a lawyer, but if you won a suit you ought to get something out of it.

Mr. Farley: The court ordered that the parties get together and stipulate as to the royalties, but I understand from Mr. Schenck that Mr. Strauch has agreed to make a deal for some $25,000.00 or so—just agreed again. Mr. [fol. 100] Schenck, who was very much out on the amount of royalties actua' ; due and accrued at the present time, should be able to explain that. Now, of course, this is the judgment of Judge Kirkpatrick, which was rendered November 25, 1942, and it provides that if the parties do not stipulate before the date mentioned, Alma is given leave to apply to the court for the appointment of a Special Master to ascertain the facts and report to the court. That would mean going through an accounting before the Master. Of course, the November 25th judgment was rendered at that time; but it would be about February 25th when the court actually took steps to go into an accounting, and naturally he would not take those steps if it was learned that one side or the other had appealed.

Mr. Strauch: The suggestion was made, I think, by Mr. Frye, that we might be able to settle the whole thing by taking the whole thing over for $25,000.00 and I said I would see what I could do about that. That is as far as it went, but the answer has been that there was not $25,000.00 in it and I think Mr. Farley has over-estimated by a considerable amount when he says $25,000.00 is due.

Mr. Farley: I am not going to hazard a guess. I haven't the slightest idea what the situation is in regard to that.

Major Cockrell: What is your guess on the claim in regard to unpaid royalties?

Mr. Schenck: We have never figured it out, but we think it is around $100,000.00 and we have received about $2,000.00 so far.

Major Cockrell: It seems to be considerably difficult to get the exact figures as to what is due. How can we arrive at some agreement?

Mr. Schenck: I am guessing at it. There has not been much paid on it and we based that low rate of fifty cents on the number of materials that they got under our patent. That is the only way we could arrive at it.

Mr. Farley: That is about your recollection, Mr. Gallagher?

Mr. Gallagher: I think about $20,000.00.

Mr. Strauch: Mr. Gallagher said to figure about $20,000.00—that he reported each quarter on the number of cases that were made on their request and we told them right off the bat when that patent first came out that we [fol. 101] were not paying anything except on the first four claims, so that is the way that stands. I think the heavy production on the ton and a half jobs was made by Chrysler, Ford, Willys-Overland and Spicer supply units—those are the people that made the big volume of jeeps and peeps and small one and a half ton jobs.

Mr. Farley: I wonder, in order to keep your records complete, if you should not have a copy of this judgment. I think that is offered in evidence. Do you want to look at it with Mr. Strauch?

Mr. Strauch: I will check the numbers and see if they are all right. Yes, except for possible errors in tabulation in there, that is the form of the decree.

Major Cockrell: That is the decree of the court?

Mr. Strauch: Yes.

Major Cockrell: That will be entered as Exhibit "D"

(A copy of the decree, marked for identification Exhibit "D" is hereto attached and made a part of this transcript.)

Do you think of anything else, Colonel?

Lt. Col. Herrstrom: No, sir?

Lt. Com. Chappel: Has somebody a copy of the record of the proceedings of the court before Judge Kirkpatrick?

Mr. Strauch: I have that.

Major Cockrell: You can supply us with a copy of that?

Mr. Strauch: I will lend you a copy and you can copy it.

Major Cockrell: All right.

Mr. Strauch: You fellows in Washington have taken all our girls away from us and we have trouble in getting anything copied.

Mr. Farley: Maybe I have overlooked something. Is there any particular conclusion reached as to whether or not the Government would accept, or rather be willing to deliver to the Alma Company or their duly accredited representatives, either myself or Mr. Frye, the drawings of the various constructions that are being employed by the Government, and then it is a question of opinion as to which one the Alma Company considers is covered by the claims of the patent.

[fol. 102] Major Cockrell: I don't know whether that was done or not.

Mr. Farley: I was wondering if any decision had been made?

Major Cockrell: There has been no decision, but we can investigate for you.

Mr. Farley: I think it would be quite helpful to the board to know just what the contentions of the Alma Company would be so as to indicate to you what scope the thing would grow to. I did not know it was going to involve, or might involve a large amount of documentary proof.

Major Cockrell: We will determine if it is possible to submit the Alma drawings of the transfer cases that are being made by the Government which come under their patent, in their opinion. We will see if that can be done.

Mr. Strauch: Mr. Farley would have no difficulty in getting those prints from Ford, and Ford's prints would cover the same design as Willys-Overland and Spicer and those others. You ought to be able to get a print of that very easily.

Mr. Farley: You say would I be able to get them?

Mr. Strauch: Yes; the Ford Motor Company.

Mr. Farley: Of course, if Ford is going to be involved, I will have to efface myself from this picture. I am counsel for the Ford Company, and, in fact, I just came from there, and naturally, if there is a conflict of interests between Ford and Alma, I would have to efface myself from this picture.

Mr. Strauch: I also know there are new designs of transfer cases—new designs that are not under the scope of this thing, which, I doubt very much if the Government would want to let them out.

Major Cockrell: We would determine whether the office drawings can be available to Alma Motors Company for examination to see if they come within their patent. We cannot say that the Alma Motors Company will be allowed to examine those drawings, but as far as possible that permission will be given them.

Mr. Farley: I was going to say if the Government is satisfied that the royalty is reasonable and the various contractors grab up the fifty cent royalty in each of the bills, that they are being reimbursed by the Government for any royalties they pay, and I know that has been included [fol. 103] in other contracts that have royalties included, but I don't suppose that any of the contractors would pay it out of their own pockets.

Major Cockrell: If that is all, the meeting will be adjourned.

(Whereupon the meeting adjourned.)

[fol. 104] EXHIBIT "A" TO TRANSCRIPT OF PROCEEDINGS

War Department

Office of the Under Secretary

Washington, D. C.

February 2, 1943.

Memorandum for The Chief of Ordnance

Subject: Further Delegation of Authority under the Act of October 31, 1942 (Public Law 768, 77th Congress, 2nd Session).

1. Reference is made to the memorandum dated November 20, 1942, as amended on January 30, 1943 (herinafter referred to as the Delegation of November 20, 1942) of the Secretary of War regarding the delegation of authority under the Act of October 31, 1942, Public Law 768, 77th Congress, 2nd Session (hereinafter referred to as the Act).

2. Such of the powers, duties and authorities conferred upon the Secretary of War by the Act as are referred to in clauses (2) and (3) of paragraph 1112.8 of Schedule 1 annexed to the Delegation of November 20, 1942, are hereby further delegated, with respect to the patent and agreement referred to in the Notice dated December 30, 1942, a copy of which is hereto attached, marked Schedule A, to Major Wayne L. Cockrell, Production Service Branch, Detroit Ordnance District Office, whose action under this delegation will be subject to review and approval by the Chief of Ordnance and, as provided in clause (3) of said paragraph 1112.8, to the approval of the Director, Purchases Division, Headquarters, Services of Supply.

3. The powers, duties and authorities conferred in the Delegation of November 20, 1942 to the Chief of Ordnance and the Deputy Chief of Ordnance, as well as the powers, duties and authorities herein conferred upon Major Cockrell, may be exercised with respect to any contract, subcontract, or purchase by the War Department involving the patent and agreement referred to in Schedule A. In the exercise of such powers, duties and authorities, herein referred to the representatives of the Ordnance Department will consult with representatives of any supply service

known or believed to be concerned, and will be under the direction of the Under Secretary of War.

(S.) Robert P. Patterson, Under Secretary of War.

1 Incl.—Cy of Notice.

[fol. 105] EXHIBIT "C" TO TRANSCRIPT OF PROCEEDINGS

License Agreement

This Agreement, made this 16th day of May, 1938, between the Alma Motor Company, a Michigan Corporation having offices at 884 Penobscot Building, Detroit, in the County of Wayne and State of Michigan, hereinafter called "Alma"; The Timken-Detroit Axle Company, 100-400 Clark Avenue, Detroit, in the County of Wayne and State of Michigan, hereinafter called Timken; and Arthur W. Herrington of Indianapolis, Indiana, hereinafter called Herrington, Witnesseth, that

Whereas, Frank W. Ruggles and Charles D. Smith have invented certain improvements in Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles, hereinafter referred to as "Transfer Cases", and disclosed in an application for Letters Patent of the United States, filed February 23, 1935, and bearing Serial No. 7751, and which has been duly assigned to the Alma Motor Company, and

Whereas, Alma is the owner of the entire right, title and interest in said application, and

Whereas, the said application Serial No. 7751 is now involved in an Interference No. 73,919 with a certain application of one Beverly W. Keese, for Power Transmitting Mechanism, filed August 3, 1935, and bearing Serial No. 34,621, and duly assigned to Timken; and also with a certain other application of said Herrington for Power Shaft Unit for Four-Wheel Drive, filed February 25, 1935, and bearing Serial No. 7,976, and

Whereas, certain of the counts of said Interference No. 73,919, to wit, counts 1, 2, 3, 4, 6, 11 and 15 are too broad in view of a Transfer Case developed by the government at Camp Holabird, Maryland, known as the T-9 Wisconsin Transfer Case, shown in a Wisconsin Axle Company print dated November 13, 1931, and in Camp Holabird print No. 04501 SKT 08869 dated June 8, 1931; and

[fol. 106] Whereas, Timken is desirous of manufacturing and selling "Transfer Cases" embodying the said improvements disclosed in said application Serial No. 7,751 which were not embodied in said T-9 Wisconsin Transfer Case;

Now, Therefore, in consideration of the foregoing premises and in consideration of the faithful performance of the covenants and conditions hereinafter set forth the Parties hereto hereby agree as follows:

(I) The Parties hereto hereby agree to disclaim in said Interference 73,919 the subject matter of said T-9 Wisconsin Transfer Case and the counts in said Interference readable thereon, to wit, counts 1, 2, 3, 4, 6, 11 and 15.

(II) Timken and Herrington hereby agree not to contest the right of Alma to the claims of said application Serial No. 7,751, forming the issue of said Interference No. 73,919 and further agree to file written "concessions of priority" as to the remaining subject matter in said Interference 73,919, not disclaimed under Paragraph I hereof by the Parties in said Interference.

(III) Alma hereby licenses and empowers Timken to make, use and/or sell, subject to the conditions hereinafter named, and to the end of the term for which letters patent may be granted on said application Serial No. 7,751, or any divisional, continuation or reissue application based thereon, "Transfer Cases" embodying the aforesaid improvements, within the United States, its territories and all Foreign countries.

(IV) Timken agrees to make full and true returns to Alma, upon the first days of January and July in each year, of all "Transfer Cases" embodying said improvements manufactured, used and/or sold by them and upon which royalties are due hereunder.

(V) Timken agrees to pay Alma Fifteen Hundred Dollars ($1500.00) immediately upon the execution of this agreement; and agrees further to pay to Alma from and after the date of issue of a patent to Alma, under said application [fol. 107] Serial No. 7,751, with claims dominating Transfer Cases made by Timken, a royalty of Fifty Cents ($0.50) on each "Transfer Case", embodying said improvements for vehicles having a gross weight up to 14,000 pounds, Seventy Five Cents ($0.75) for vehicles exceeding 14,000 pounds

and up to 23,000 pounds, One Dollar ($1.00) for vehicles exceeding 23,000 pounds and up to 35,000 pounds, and One Dollar and Fifty Cents ($1.50) for vehicles exceeding 35,000 pounds.

(IV) The liability of Timken for the payment of royalties under Paragraph V shall continue for the entire term of this license agreement, as set forth in Paragraph III, or until terminated as herein provided, or until, in any suit brought on said letters patent, it shall be finally held that all claims dominating the "Transfer Cases" made, used and/or sold by Timken are invalid, whereupon said liability shall immediately cease.

(VII) Upon failure of Timken to make returns or to make payment of license fees, as herein provided for, for sixty (60) days after the days herein named, Alma may terminate this license by serving a written notice upon Timken; but Timken shall not thereby be discharged from any liability to Alma for any license fees due at the time of service of said notice.

(VIII) Alma hereby agrees that at any time from and after the issue of a patent to it within the scope of the present agreement, it will, within sixty days after service on it of notice in writing of unlicensed manufacture by others of Transfer Cases within the scope of the present agreement, institute and diligently prosecute suits against such unlicensed manufactures to enjoin such unlicensed manufacture, and if Alma neglects or declines to institute and to actively prosecute such suit or suits to a final decision, or in event [fol. 108] that the patent claims of Alma dominating said transfer cases are held invalid in such litigation, then Timken shall be relieved of its obligations to pay royalties to Alma as provided above.

In Witness W[illegible]of, the Parties above named have hereunto set their hands the day and year above written at Detroit, in the County of Wayne and State of Michigan.

Alma Motor Company, (Sgd.) by William W. Schenck, President; The Timken-Detroit Axle Company, (Sgd.) by R. J. Goldie, Vice Pres.

In the Presence of: (Sgd.) Albert J. Taylor, J. E. Gallagher.

[fol. 109] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE

Civil Action No. 198

THE TIMKEN DETROIT AXLE COMPANY, Plaintiff,

vs.

ALMA MOTOR COMPANY, Defendant

Before Honorable William Kirkpatrick, District Judge.

JUDGMENT

This cause having come on to be heard, upon pleadings and proofs presented in open court by both parties, and after briefs were filed by both parties and other due proceedings had, it is hereby Ordered, Adjudged and Decreed as follows:

1. That Letters Patent of the United States No. 2,173,044, issued September 12, 1939, on the invention of Ruggles and Smith for "Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles" is owned by the defendant, Alma Motor Company.

2. Plaintiff is a licensee under such patent and has been since the issuance thereof on September 12, 1939.

3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein.

[fol. 109a] 4. That plaintiff has manufactured and sold auxiliary transmission mechanisms since the issue date of said Ruggles and Smith patent which are dominated by one or more claims of such Ruggles and Smith patent, as follows:

A-559	A-32	PX-34
A-468	T-32-9	PX-90
A-477	T-42-G	DX-21
A-477	T-43-H	DX-21
A-595	T-32-15-1	PX-91c
A-338	T-32-2	PX-90
SKt-6338	T-32-13-1	DX-21
A-582	T-32-13-3	PX-91n
A-605	T-32-23-1	PX-91f

are dominated by claims 5, 6, 7, 8, 9, 10, 11 and 12.

SKT-6338	T-32-13-2	DX-21
A-596	T-32-13-4	DX-21
A-612	T-32-13-5	DX-21
A-612	T-32-13-6	DX-21

are dominated by claim 10 only.

A-626	T-43-P-1	PX-91h
A-626	T-43-V-1	PX-91h

are dominated by all claims except 4;

and that plaintiff should have paid to defendant royalties in accordance with the license agreement on all such auxiliary transfer cases.

5. The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant in this suit.

[fol. 110] 6. That unless plaintiff and defendant shall stipulate and agree in writing within thirty days from the date hereof as to the amount of royalties or license fees due from plaintiff to defendant under the license agreement, with interest at the rate of 5% per annum from the dates when such royalties or license fees became due, the defendant is given leave to apply to this court for the appointment of a Special Master of this Court to ascertain, take, state and report to the Court the number of auxiliary transmission mechanisms, upon which royalties are due under the opinion, findings and conclusions of the Court, manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent, up to the date of this Judgment, and to determine the number of such auxiliary transmission mechanisms upon which royalties due from plaintiff and payable to the defendant at the royalty rate specified in the aforesaid license agreement.

7. That the taxable costs of this action, other than the costs of the accounting provided for in paragraph 6 hereof, shall be divided between the parties, three-fourths to be paid by the plaintiff and one-fourth by the defendant.

—— —— United States District Judge.

Dated: November 25, 1942.

(Here follows 1 photolithograph side folio 111)

EXHIBIT "D" to MOTION

United States of America

WAR DEPARTMENT

WASHINGTON, 29 July, 1943

I HEREBY CERTIFY that the attached is a true copy of Royalty Adjustment Order No. W-3, issued 28 July 1943, in the Matter of Alma Motor Company, Licensor and Detroit-Timken Axle Company, Licensee, the original of which is on file in the Office of The Adjutant General.

J. A. ULIO,
The Adjutant General.

I HEREBY CERTIFY that J. A. Ulio, who signed the foregoing certificate, is the The Adjutant General, and [illegible]tification as such full faith and credit are and ought to be given.

IN TESTIMONY WHEREOF I, Robert P. Patterson Acting Secretary of War, have hereunto caused the seal of the War Department to be affixed and my name to be subscribed by the Assistant Chief Clerk of the said Department, at the City of Washington, this 29th day of July, 1943

Robert P. Patterson
Acting Secretary of War.

WAR DEPA[illegible]
Form No. [illegible]

111

By J. C. Cook
Assistant Chief Clerk.

92A

[fol. 112] Royalty Adjustment Order No. W-3

War Department, Washington

Royalty Adjustment Order No. W-3

(Act of October 31, 1942, Public Law 768, 77th Cong.)

In the Matter of Alma Motor Company, Licensor

and

Detroit-Timken Axle Company, Licensee

Dated: July 28, 1943.

[fol. 113] Royalty Adjustment Order No. W-3

(Act of October 31, 1942, Public Law 768 77th Congress)

In the Matter of Alma Motor Company, Licensor,

and

Detroit-Timken Axle Company, Licensee

War Department Contract Nos. —

The licensee, Timken-Detroit Axle Co. is a sub-contractor for many prime contractors and War Department contracts under which the licensee works as a sub-contractor, cannot be completely identified.

Contractor: Timken-Detroit Axle Co. is the sub-contractor.

Whereas, pursuant to authority contained in the Act of October 31, 1942 (Public Law 768, 77th. (Congress) written notice was given on or about December 30, 1942 to Alma Motor Company, licensor (hereinafter called "Licensor") and to Timken-Detroit Axle Company, licensee (hereinafter called "Licensee") that the rates or amounts of royalties set forth in Column 5 of Schedule A annexed hereto and by reference made a part hereof, provision for the payment of which by Licensee to Licensor is included in the license or licenses specified in Column 6 of said Schedule A, and which said royalties are directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the

United States of certain alleged inventions specified in Columns 1, 2, 3 and 4 of said Schedule A, were believed to be unreasonable or excessive taking into account the conditions of wartime production, and that until the making of an Order herein no royalties should be paid by Licensee to Licensor on account of such manufacture, use, sale or other disposition for the United States; and

Whereas, said Licensor and Licensee, upon their request, have presented in writing and in person such facts and circumstances as they desired having a bearing upon the rates or amounts of royalties to be determined, fixed and specified by Order pursuant to said Act;

[fol. 114] Now, Therefore, upon consideration of the facts and circumstances presented as aforesaid and taking into account the conditions of wartime production, it is hereby *Ordered* as follows viz:

(1) that a fair and just rate or amount of royalty, taking into account the conditions of wartime production, to be paid by Licensee to Licensor pursuant to the licenses specified in Column 6 of said Schedule A in connection with the performance of any War Department contract is hereby determined, fixed and specified to be the rate or amount set forth in Column 7 of said Schedule A;

(2) that, until further Order, Licensee is hereby authorized to pay to Licensor

(a) under the licenses identified in Column 6 of said Schedule A,

(b) under any license between them entered into on or after the effective date of said notice and prior to the date of this Order which grants rights to practice the alleged inventions specified in Columns 1, 2, 3 and 4 of said Schedule A, and

(c) under any license between them entered into on or after the date of this Order which in any respect continues, supplements, modifies or supersedes any of the licenses referred to in subparagraphs (a) and (b) hereof,

royalties as determined, fixed and specified in paragraph (1) of this Order, and no more, in respect of any supplies, equipment or materials delivered to or for the War Department upon which no royalties in excess thereof have been

paid to Licensor on or since the effective date of said notice and which embody or in whose manufacture there were used the said alleged inventions;

(3) that Licensee is hereby directed forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under the licenses referred to in paragraph (2) hereof, on account of supplies, equipment or materials delivered to or for the War Department, which are in excess of the royalties specified in paragraph (1) hereof and which (a) on the effective date of said notice were due and payable to Licensor but were unpaid or (b) fall due for payment at any time after the effective date of said notice and until such time as Sections 1 and 2 of the said Act of October 31, 1942 are no longer in force; and for so much of said excess as was due and unpaid to Licensor on the effective date of said notice or has fallen due for payment to Licensor since said date and prior to the date of this Order, demand for payment is hereby made.

(4) that Licensee is hereby directed to reduce the contract price of all supplies, equipment or materials, or parts thereof, which have been delivered or are to be delivered by Licensee to or for the War Department or to any con- [fol. 115] tractor or subcontractor for the War Department but for which Licensee has not on the date of this Order received payment, embodying or in whose manufacture there was used the alleged inventions specified in Columns 1, 2, 3 and 4 of said Schedule A, to the extent necessary to give the War Department the full benefit of the reduction in royalty rates specified in paragraph (1) of this Order: and

(5) that reservation is hereby expressly made of the right of any department or agency of the Government, including but not limited to the War Department, to take such other, further or different action as may be authorized by any statute of the United States respecting the Licenses referred to in paragraph (2) of this Order or any license which includes provision for the payment of royalties directly or indirectly chargeable to the Government on account of the manufacture, use, sale or other disposition by or for the Government of the alleged inventions specified

in Columns 1, 2, 3 and 4 of said Schedule A, with the same force and effect as if this Order had not been issued.

Levin H. Campbell, Jr., Major General, Chief of Ordnance; Wayne L. Cockrell, Major, Ordnance Department Hearing Officer.

[fol. 116] The foregoing Order is hereby approved in behalf of the Secretary of War.

By direction of the Under Secretary of War.

Albert J. Browning, Brigadier General, General Staff Corps, Director, Purchases Division, Headquarters, Army Service Forces.

Dated: July 28, 1943.

[fol. 117] SCHEDULE A

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7
Title or Short Description of Invention	U. S. Patent No.	Application Serial No.	Foreign Patents	Royalty Stipulated Prior to Date of Notice	Instrument in which royalty Stipulated	Fair & Just Royalty
Auxiliary transmission for Four-Wheel Drive Automotive Vehicles	Ruggles & Smith Pat. #2,173,044			$.50–$1.50	May 16, 1938	$0.00

[fol. 117a] [File endorsement omitted]

[fol. 118] UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

MOTION BY THE UNITED STATES FOR LEAVE TO FILE A MEMORANDUM BRIEF AS AMICUS CURIAE—Filed November 15, 1943

Comes now the Assistant Attorney General, on behalf of the United States, and respectfully moves the Court for leave to file a memorandum brief as amicus curiae in the instant appeal.

In support of this motion, the Assistant Attorney General states that:

1. This action was commenced by the plaintiff, Timken-Detroit Axle Company, under the Federal Declaratory

Judgment Act (Sec. 274-d Judicial Code; 28 U. S. C. § 400) for judicial determination of whether transfer cases now being manufactured by plaintiff require payment of royalties to the defendant Alma Motor Company under a patent license between the parties. On September 23, 1942, the court below decided that certain of the transfer cases manufactured by Timken were without the scope of the license and thus not subject to royalties to Alma, while others were covered by the license and were thus subject to royalties.

[fol. 119] 2. On February 27, 1943, Alma appealed from the judgment to this effect entered below November 30, 1942.

3. On July 28, 1943, pursuant to the authority contained in Public Law No. 768, approved October 31, 1942 (77th Cong., 2d Sess.), the War Department issued Royalty Adjustment Order W-3 which ordered Timken to pay no royalty whatever under said license agreement on account of the manufacture, use or sale of any structures involved in this action for the United States.

4. According to the allegations made by the plaintiff in this action, all the structures in question now being manufactured by the plaintiff are made solely for the United States. In these circumstances, it is believed that this appeal has been rendered presently moot by the issuance of the Royalty Adjustment Order under Public Law No. 768, since an "actual controversy" does not now exist within the meaning of Section 400 of the Federal Declaratory Judgment Act.

It is therefore respectfully requested that this Court grant leave to the United States to file a memorandum brief as amicus curiae on the question as to whether or not the instant appeal is moot.

Francis W. Shea, Assistant Attorney General.

November, 1943.

[File endorsement omitted.]

[fols. 120-121] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER GRANTING LEAVE TO UNITED STATES TO FILE AMICUS CURIAE BRIEF—November 15, 1943

And afterwards, to wit, the 15th day of November, 1943, come the parties aforesaid by their counsel aforesaid, and this case being called for hearing on Motion by the United States for Leave to File a Brief as Amicus Curiae, before the Honorable John Biggs, Jr., Honorable Albert B. Maris and Honorable Charles Alvin Jones, Circuit Judges, and the Court not being fully advised in the premises, takes further time for the consideration thereof,

And afterwards, to wit, on the 15th day of November, 1943, come the parties aforesaid by their counsel aforesaid, and the Court, now being fully advised in the premises, grants the Motion for Leave to File a Brief as Amicus Curiae.

[fol. 122] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

PETITION TO REVIEW AND VACATE ROYALTY ADJUSTMENT ORDER NO. W-3 OF THE WAR DEPARTMENT—Filed December 6, 1943

Now comes the Defendant-Appellant, Alma Motor Company, in the above entitled cause, by its attorney, and under the provisions of Rule 20 of this Court respectfully petitions the Court to review the Royalty Adjustment Order No. W-3 issued July 28, 1943, by the War Department, copy of which, marked Exhibit D, is attached to appellee's Motion to Dismiss Appeal filed herein, and to vacate said Order on the grounds that it is unconstitutional and violates the rights secured to appellant by the Constitution of the United States, which appellant invokes for the protection of its rights.

In support of this Petition appellant submits the Affidavit of William W. Schenck hereunto attached.

Nature of the Proceeding Sought to Be Reviewed

The proceeding here sought to be reviewed is the issuance by the War Department of Royalty Adjustment Order No. W-3 issued as a result of a hearing held February 8, 1943 at Detroit, Michigan, under a "Further Delegation of Authority Under the Act of October 31, 1942 (Public Law No. 768, 77th Congress, 2nd Session)," to Major Wayne L. Cockrell of the Ordnance Department of the United States Army as presiding officer of a Board consisting of the said Major Cockrell, Lt. Col. C. E. Herrstrom, also of the Ord-
[fol. 123] nance Department of the United States Army and Lt. Comm. Ralph L. Chappell of the United States Naval Reserve. (See page 1 of Exhibit C attached to Appellee's "Motion to Dismiss Appeal.")

Statement [illegible]

As set forth in the Affidavit of William W. Schenck, hereunto attached, the only communications received by appellant, Alma Motor Company, relative to the subject matter was the notice dated December 30, 1942, marked Exhibit E, the letter dated January 13, 1943 and marked Exhibit G and the letter dated January 28, 1943, and marked Exhibit H. As will be seen from said Exhibits E, G and H, notice was given to appellant the Alma Motor Company that the hearing to be held on February 8, 1943 was for the stated purpose of examining into the reasonableness of the rate of royalty being paid by the appellee, Timken-Detroit Axle Company, to appellant under a license contract and agreement bearing date of May 16, 1938 and copy of which is attached to appellee's Motion to Dismiss Appeal as Exhibit C.

Petitioner further shows that a hearing in accordance with such notices was held in the City of Detroit, State of Michigan on February 8, 1943 before said Major Cockrell as presiding officer, Lt. Col. Herrstrom and Lt. Comm. Chappell and that during such hearings the question of the reasonableness of the royalty provided for by said contract was not examined into but that instead the entire proceeding was directed to a consideration of the question of validity of the Ruggles and Smith patent No. 2,173,044. (See Exhibit C "Transcript of Proceedings.") As will be seen from a perusal of said "Transcript of Proceedings," no *evidence* concerning the validity of said patent was introduced during such hearings, but an attack on the patent's

validity was made by the mere unsupported argument of William A. Strauch, counsel for appellee, The Timken-Detroit Axle Company. After such attack was launched, counsel for appellee questioned the authority of the Board under Public Law 768 to pass on the question of validity or to decide such question on the mere unsupported state-[fol. 124] ments and arguments of counsel. Whereupon counsel for appellant was advised by the presiding officer, Major Cockrell, that the opportunity for the presentation of full evidence was not to be afforded and that it was "the opinion of the Chief of Ordnance that the said Ruggles and Smith patent No. 2,173,044 is invalid." (Exhibit C pages 12-13.) No evidence upon which the opinion of the Chief of Ordnance was based was submitted to appellant or its counsel nor was any opportunity given to appellant to meet or contest such evidence. Although it was stated by Mr. Strauch in his argument (bottom of page 10 and top of page 11, Exhibit C) that the Board had material additional to that presented in the trial before Judge Kirkpatrick, the averment is made on page 2 of the affidavit of John E. Gallagher "Exhibit B" attached to Appellee's Motion to Dismiss Appeal that he had "been advised * * * the issuance of said order is based on the art of record in this litigation." The situation presented to this Court therefore is one wherein an Administrative Board had issued an order which in effect reverses the judgment of the Federal District Court for the District of Delaware and bases its reversal upon the mere opinion of an administrative officer of the executive branch of the Government without properly disclosing any of the evidence upon which said opinion was predicated or without due or any notice to appellant that would enable it to meet such evidence.

Statement of Facts and Statutes upon which Venue Is Based

Jurisdiction of this cause of action was originally acquired by this court by reason of an appeal from the judgment of the United States District Court for the District of Delaware. The judgment of the said District Court was invoked by plaintiff-appellee, The Timken-Detroit Axle Company, under the provisions of the Federal Declaratory Judgment Act (Sec. 274-d Judicial Code; 28 U. S. C. Sec. 400).

The question of the scope, force and effect of Royalty Adjustment Order No. W-3 issued by the War Department July 28, 1943, is squarely placed before this court by reason of appellee's "Motion to Dismiss Appeal, etc." which appeal was duly filed by appellant in this cause and also by [fol. 125] the Memorandum Brief for the United States as Amicus Curiae filed herein November 15, 1943. Jurisdiction of this present cause is vested in this Court by reason of the provisions of Section 128 of the Judicial Code (U. S. C. A., Title 28; 225).

As appellee's motion to dismiss the appeal and the Amicus Curiae brief are predicated upon the proposition that Royalty Adjustment Order No. W-3 and Public Law 768 divests this Court of jurisdiction of the subject matter involved in appellant's appeal and renders nugatory the judgment of the District Court which still remains to be enforced, the obligation to review said Order and pass upon its constitutionality seems clearly to be inescapable.

Points on which Petitioner Intends to Rely

Petitioner, therefore, invokes the Constitution of the United States for the protection of its rights and respectfully requests this Court to review Royalty Adjustment Order No. W-3 and to vacate such Order as violative of the Fifth Amendment to the Constitution of the United States in that it deprives appellee of vested property rights without due process of law in the following respects:

1. The notices relating to said hearing, Exhibits E, G and H, which unequivocally state that the hearing was to be held for the purpose of examining into the reasonableness of the royalty provided for by such contract do not correspond to the subject matter examined into at such hearing, namely, the validity of the said Ruggles and Smith patent, therefore, the hearing and order issued as the result thereof did not constitute due process of law.

2. The Royalty Adjustment Order W-3 of July 28, 1943 is unconstitutional because it is retrospective in that by its terms in ordering "licensee" (the appellee Timken-Detroit Axle Company) to pay no royalty to "licensor" (Alma Motor Company) see paragraph 2, page 2 and Schedule A [fol. 126] of sa I Royalty Adjustment Order No. W-3, Ex-

hibit D, and ordering licensee forthwith to pay over to the Treasurer of the United States the balance of any royalties accrued or hereafter accruing, see paragraph 3, page 2, of Exhibit D, it destroyed property rights of appellant which had become legally and completely vested long prior to the issuance of said Order.

3. Although said Order does not, in terms, declare patent No. 2,173,044 invalid, the Order providing that there should be no payment of royalty under the contract was clearly based upon a holding of invalidity of said patent predicated upon an "opinion of the Chief of Ordnance" arrived at prior to said hearing, all as appears more fully from the Transcript of Proceeding of said hearing attached to appellant's Motion to Dismiss and marked Exhibit C. As no evidence was produced at said hearing to show what the "opinion of the Chief of Ordnance" was based upon, no proper notice of hearing was given and no findings made to support the legal conclusion of invalidity. The hearing and Royalty Adjustment Order No. W-3 purporting to be issued as a result of said hearing deprived appellant of vested property rights without due process of law in contravention to the constitutional rights of appellant.

4. Insofar as the said Royalty Adjustment Order No. W-3, which by its terms is clearly retrospective, destroyed property rights of appellant which had become completely and legally vested, was authorized by the provisions of Public Law 768, said Public Law is unconstitutional as violative of the provisions of the Fifth Amendment to the Constitution of the United States.

5. That as the said Royalty Adjustment Order No. W-3 and/or Public Law 768 purports to effect and modify a contractual obligation by authorizing a defense to said contractual obligation non-existent at law prior to October 31, 1942 and effecting property rights that had become legally and completely vested prior to such date, said Royalty Adjustment Order and/or said Public Law 768 are invalid and unconstitutional.

[fol. 127] 6. Insofar as the Royalty Adjustment Order No. W-3 held a patent duly issued by the United States Patent Office invalid, or insofar as Public Law 768 authorizes an administrative board to pass upon the validity of a United States patent without notice and without the

opportunity to be heard, without the presentation of any evidence and upon the preconceived opinion of an executive officer, viz: the Chief of Ordnance of the War Department of the United States, such Order and/or Public Law 768 is invalid and unconstitutional as (a) it constitutes an arbitrary and capricious exercise of power and usurpation of a purely judicial prerogative by an administrative board of the executive department of the Government; (b) it deprives appellant of a vested property right without due process of law in contravention to the explicit provisions of the Fifth Amendment to the Constitution of the United States, and (c) is violative of the provisions of Article III, Section 2 of said Constitution and violative of the intent and purpose of second paragraph of Article VI of said Constitution.

Respectfully submitted, Alma Motor Company, by
I. Joseph Farley.

[fol. 128] IN THE UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE THIRD CIRCUIT

[Title omitted]

AFFIDAVIT OF WILLIAM W. SCHENCK

STATE OF MICHIGAN,
County of Wayne, ss:

William W. Schenck, being duly sworn, deposes and says:

I am President of the Alma Motor Company, a corporation organized and existing under the laws of the State of Delaware and having a place of business at Alma, Michigan.

That the Alma Motor Company was made defendant in a declaratory judgment action brought by the Timken-Detroit Axle Company as plaintiff, in the District Court of the United States for the District of Dalaware; that said action was duly brought to trial and judgment was entered therein on December 2, 1942.

That I have read the Motion to Dismiss the above entitled appeal filed by plaintiff-appellee in the above entitled cause and have considered the Exhibits A to D inclusive attached to said Motion.

That on or about January 1, 1943 there was received at the Alma Motor Company a notice from the office of the Chief of Ordnance of the War Department dated December [fol. 129] 30, 1942, signed by L. H. Campbell, Jr., Major General, Chief of Ordnace, photostatic copy of which Notice is attached hereto and marked Exhibit E, notifying the Alma Motor Company that "royalties now being paid by the United States under Ruggles and Smith patent No. 2,173,044 are believed to be unreasonable or excessive"; that after the receipt of such Notice I sent a letter to the said Major General L. H. Campbell, Jr., Chief of Ordnance of the War Department from the Alma Motor Company, signed by me as President of said Company, which letter is dated January 8, 1943 and a copy of which is attached hereto and marked Exhibit F.

That thereafter I received a letter addressed to me as President of the Alma Motor Company from the office of the Chief of Ordnance of the War Department, Washington, D. C., dated January 13, 1943 and signed by Charles E. Herrstrom, Lt. Col., in the Ordnance Department, photostatic copy of which is attached hereto and marked Exhibit G and that subsequently I received a further letter addressed to me as President of the Alma Motor Company from the office of the Chief of Ordnance of the War Department, dated January 28, 1943 and also signed by the aforesaid Charles E. Herrstrom, Lt. Col. of the Ordnance Department, copy of which is attached hereto and marked Exhibit H, and containing notification of a hearing to be held on February 8, 1943 in the Union Guardian Building, Detroit, Michigan "at which the parties in interest may present in writing, or otherwise, any facts or circumstances which may have a bearing upon the rates, or amounts, of royalties, if any, to be fixed."

That no notice pertaining to said hearing other than those attached hereto and marked Exhibits E, G and H, was received at any time by the Alma Motor Company, or by me as President thereof.

[fol. 130] That as President of the Alma Motor Company, I attended the hearing on February 8, 1943 in the Union Guardian Building, Detroit, Michigan, accompanied by present counsel of the Alma Motor Company, I. Joseph Farley, Esquire, stenographic copy of the Transcript of Proceeding at such hearing being attached to plaintiff-appellee's Motion to Dismiss Appeal, etc., and marked Ex-

hibit C, and that it was not until after the completion of the argument made by counsel for the Timken-Detroit Axle Company, William A. Strauch, Esquire, as contained in pages 2 to 8 inclusive of said Transcript and directed solely to the question of the validity of the said Ruggles and Smith patent No. 2,173,044 and not to the reasonableness of the royalty of 50 cents on a transfer case selling for approximately $100.00, or a royalty of ½ of 1 percent, and the following statement of Major Wayne L. Cockrell of the Ordnance Department and the presiding officer of the Board which conducted such hearing—

> "Major Cockrell: The opinion of the Chief of Ordnance is that the patent is invalid"

that the Alma Motor Company, or its counsel, learned that the hearing was to be directed to the question of validity of the said Ruggles and Smith patent No. 2,173,044 and not to the reasonableness of the rate of royalty provided for by the contract of May 16, 1938, copy of which is attached to the said Motion to Dismiss Appeal and marked Exhibit C.

Deponent further deposes and says that the reports rendered by the Timken-Detroit Axle Company to the Alma Motor Company show the following quantities of transfer cases as having been manufactured by the Timken-Detroit Axle Company during the period from September 12, 1939 up to and including September 1942.

[fol. 131]

Timken Company Designation	Number of Cases Made and Sold			
	1939	1940	1941	1942
T-32-13-3		7920		
T-32-13-4	472	3405	708	65
T-32-13-5	32	70		
T-32-15-1	301	1067	1700	715
T-79		8107	46453	29713
T-79-4		100		

Further deponent sayeth not.

William W. Schenck.

Subscribed and sworn to before me this 2nd day of December, 1943. (Sgd.) Elsa E. Taylor, Notary Public, Wayne County, Mich. My Commission expires Jan. 27, 1946. (Seal.)

[fol. 132] EXHIBIT "E" TO AFFIDAVIT

All Communications Should Be Accompanied by Carbon Copy and Addressed to

War Department Department

Office of the Chief of Ordnance

Washington

To Insure Prompt Attention
in Replying Refer to

O. O. No. 072

Attention of SPOGL-Patent Section

December 30, 1942.

Alma Motor Company
Alma, Michigan

Re: Ruggles and Smith Patent 2,173,044

GENTLEMEN:

Pursuant to the Act of October 31, 1942 (Public Law 768, 77th Congress, 2nd Session), notice is hereby given that the royalties now being paid by the United States under Ruggles and Smith Patent No. 2,173,044 are believed to be unreasonable or excessive. It is understood that these royalties are being paid by virtue of an agreement between The Timken-Detroit Axle Company as licensee and Alma Motor Company as licensor.

This notice becomes effective upon receipt or five days after the date hereof, whichever is earlier.

Under the Act the licensee or the licensor, if request is made within ten days from and after the effective date of this notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act.

Within a reasonable time after the effective date of this notice an order will be made fixing and specifying the rates or amounts of royalty if any, which are determined to be fair and just, taking into account the conditions of wartime production. Such order will authorize the payment by the

licensee to the licensor of only such rates or amounts of royalty.

The Act provides that the licensee shall not after the effective date of this notice pay to the licensor, nor charge directly or indirectly to the United States, a royalty, if any, in excess of that which may be specified in the order to be hereafter made. Until the making of such order no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States.

[fol. 133] To: Alma Motor Company

December 30, 1942.

Notice is further given that the United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement.

Very truly yours, L. H. Campbell, Jr., Major General,
Chief of Ordnance.

[fol. 134] EXHIBIT "F" TO AFFIDAVIT

884 Penobscot Building,
Detroit, Michigan,
January 8, 1943.

Gen. L. H. Campbell, Jr.,
Chief of Ordinance,
War Department,
Washington, D. C.

MY DEAR GENERAL:

Re: Ruggles and Smith Pat. 2,173,044

This will acknowledge receipt of the notice under the recent "Public Law No. 768" at our Alma plant and dated December 30th, 1942, informing us that the royalties now being paid under the above identified patent are believed to be excessive.

We are quite surprised at your belief, and feel certain that a full discussion of the facts will enable you to alter your belief. We accordingly request a hearing as soon as possible wherein the facts known to us may be presented

to you. If any special form is needed under the Law for us to obtain such hearing we wish you would send us a copy thereof, as procedure under this new Law is something our attorneys seem to be quite hazy about.

We wish you would send further correspondence in connection with this proceeding to our Detroit office, with a carbon addressed to George Rex Frye, Esq., c/o Chas. M. Ravell, 456 Munsey Bldg., Washington, D. C.

Yours very truly, William W. Schenck, Pres., Alma Motor Company.

Attention of
SPOGL-Patent Section
O. O. No. 072

[fol. 135] EXHIBIT "G" TO AFFIDAVIT

All Communications Should Be Accompanied by Carbon Copy and Addressed to

War Department

Office of the Chief of Ordnance

Washington

To Insure Prompt Attention
In Replying Refer to
O. O. No. 072/2396 Misc.

Attention of SPOGL-Patent Section

January 13, 1943.

William M. Schenck, President,
Alma Motors Company,
884 Penobscot Bldg.,
Detroit, Michigan.

Re: Ruggles and Smith patent 2,173,044

DEAR SIR:

Reference is made to your letter of January 8, 1943 (O. O. 072/2279 Misc.), addressed to Gen. Campbell.

Within thirty days from the date of your letter, an opportunity will be afforded the company to present at a hearing any facts or circumstances which may have a bearing upon

the royalties, if any, to be paid under Public Law 768—77th Congress.

You will be advised as soon as practicable of the time and place of the hearing.

For the Chief of Ordnance:

Very truly yours, Chas. E. Herrstrom, Lt. Col. Ord. Dept. Assistant.

[fol. 136] EXHIBIT "H" TO AFFIDAVIT

All Communications Should Be Accompanied by Carbon Copy and Addressed to

War Department

Office of the Chief of Ordnance

Washington, D. C.

To Insure Prompt Attention
in Replying Refer to
O. O. No. 072/2420 Misc.

Attention of SPOGL-Patent Section

January 28, 1943.

Mr. William M. Schenck, President,
Alma Motor Company,
884 Penobscot Building,
Detroit, Michigan.

DEAR SIR:

The Chief of Ordnance is in receipt of a letter mailed in Washington, D. C., on January 9, 1943 (O. O. 072/2279 Misc.), by which the Alma Motor Company requests a hearing under Public Law 768, 77th Congress, in connection with the notice dated December 30, 1942, advising that the royalties being paid under Ruggles and Smith Patent 2,173,044 are believed to be unreasonable or excessive.

In accordance with such letter a hearing is fixed for 2:00 P. M. Monday, February 8, 1943, in the conference room, 29th floor, Union Guardian Building, Detroit, Michigan, at which the parties in interest may present in writing or

otherwise any facts or circumstances which may have a bearing upon the rates or amounts of royalties, if any, to be fixed.

For the Chief of Ordnance:

Very truly yours, Chas. E. Herrstrom, Lt. Col., Ord. Dept. Assistant.

[fol. 136a] [File endorsement omitted.]

[fol. 137] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

RESPONSE TO CERTIFICATION OF DECEMBER 9, 1943 AND MOTION FOR LEAVE TO INTERVENE—Filed January 3, 1944

Comes now the United States of America, by Assistant Attorney General Francis M. Shea, and shows that:

1. On December 7, 1943 the Clerk of this Court duly certified to the Attorney General, pursuant to the Act of August 24, 1937, 28 U. S. C. 401, that the appellant in the above-entitled matter has challenged the constitutionality of the Act of October 31, 1942, 35 U. S. C. 89 *et seq.* On the same date, said Clerk served upon the Attorney General a certified copy of the appellant's petition of December 6, 1943, to Review and Vacate Royalty Adjustment Order No. W-3 of the War Department, together with supporting brief.

2. The constitutionality of an Act of Congress affecting the public interest is thus drawn in question in this action [fol. 138] and neither the United States, nor any agency thereof, nor any officer or employee thereof is a party thereto. The United States hereby applies for leave to intervene and become a party hereto for the purposes and with all the rights provided by said Act of August 24, 1937.

3. Intervention herein is sought in order to support the constitutionality and validity of the Act of Congress herein drawn in question and of Royalty Adjustment Order No. W-3 issued thereunder.

4. The United States also moves that this Response and Motion be deemed and considered a "Pleading of the United States in Intervention," in accordance with Rule 24(c) of the Federal Rules of Civil Procedure, and that said plead-

ing be deemed the appearance of the United States in support of the constitutionality of the Act of Congress herein drawn in question, in support of said Royalty Adjustment Order No. W-3, and in opposition to all pleadings and motions of the parties hereto that have been or may be made herein insofar as such pleadings or motions contend that said Act of Congress is in any respect, or in any application, unconstitutional, or that said Royalty Adjustment Order is invalid.

5. The United States further moves that if this motion be granted, the United States have until February 14, 1944 for the filing of a brief in this cause, and that it be afforded an opportunity to present oral argument at the proper time.

Francis M. Shea, Assistant Attorney General. Gerald A. Gleeson, United States Attorney.

[fols. 139-140] NOTICE OF MOTION

To Clerk of the Court, United States Circuit Court of Appeals for the Third Circuit, Philadelphia, Pennsylvania; William A. Strauch, J. Matthews Neale, Strauch & Hoffman, 1001 Fifteenth Street, N. W., Washington D. C.; Clarence A. Southerland, Southerland, Berl & Potter, Delaware Trust Building, Wilmington, Delaware; I. Joseph Farley, Thomas J. Hughes, 1664 National Bank Building, Detroit, Michigan; Hugh M. Morris, Alexander L. Nichols, 3018 Dupont Building, Wilmington, Delaware.

[File endorsement omitted].

[fol. 141] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER DENYING PETITION TO REVIEW AND VACATE ROYALTY ADJUSTMENT ORDER NO. W-3 OF THE WAR DEPARTMENT—August 7, 1944.

Before Maris, Goodrich and McLaughlin, Circuit Judges

After due consideration and hearing counsel thereon,

It is ordered that the Petition to Review and Vacate Royalty Adjustment Order No. W-3 of the War Depart-

ment filed by Defendant-Appellee on December 6, 1943 in the above entitled cause, be, and the same is, hereby denied.

August 7th, 1944.

By the Court, Goodrich, Circuit Judge.

[File endorsement omitted]

[fol. 142] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT, OCTOBER TERM, 1943

No. 8300

THE TIMKEN-DETROIT AXLE COMPANY

v.

ALMA MOTOR COMPANY, Appellant.

UNITED STATES OF AMERICA, Intervenor

Appeal From the Judgment of the District Court of the United States for the District of Delaware

Before Maris, Goodrich and McLaughlin, Circuit Judges

OPINION OF THE COURT—Filed August 7, 1944

By GOODRICH, Circuit Judge:

This action was brought under the Declaratory Judgment Act[1] by the Timken-Detroit Axle Company (herein called "Timken") against Alma Motor Company (herein called "Alma"). The plaintiff in the action sought a declaration that certain patents owned by Alma covering mechanism known as a "transfer case" which Alma had licensed Timken to use for a stipulated royalty were invalid and further [fol. 143] that transfer cases manufactured by it did not come within the scope of the license agreement so as to require payment of royalties. Alma counterclaimed for damages on account of alleged unpaid royalties. On September 23, 1942 the District Court held that Timken, as licensee, was estopped to contest validity and, second, that

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[1] 48 Stat. 955 (1934), 49 Stat. 1027 (1935), 28 U. S. C. A. 400.

certain of the transfer cases manufactured by Timken were within and certain others were without the license. Alma appealed to this Court on February 27, 1943.

On July 28, 1943 the United States War Department issued Royalty Adjustment Order No. W-3 pursuant to the Royalty Adjustment Act of October 31, 1942.[2] That order directed Timken to pay no more royalties whatever to Alma under the license agreement for transfer cases manufactured for the United States. Alleging that the "structures here in suit have all been made for the Government," Timken then moved to dismiss the appeal on the grounds that there was no longer a justiciable controversy under the Declaratory Judgment Act. Alma, in response to directions from this Court, asserted its position with regard to constitutionality of the Royalty Adjustment Act by questioning its validity. The Clerk of this Court certified to the Attorney General that the constitutionality of the Act had been questioned and the United States, in response to this certification, filed a petition of intervention on December 30, 1943, pursuant to the Act of August 24, 1937.[3]

Since the transfer cases manufactured by Timken on which royalty payments are claimed were all made in fulfilment of a contract with the United States and since the War Department's order forbade Timken to pay any royalties thereon, it follows that if the statute applies and the order was made pursuant to it, the order in this appeal should be so framed as not to pass upon what has, by events since the original trial, become moot. Before consideration of the statute on which the litigation turns, however, [fol. 144] it will be well to see just what ground was covered by earlier legislation, the constitutionality of which has been settled by authoritative court decisions, and thus more clearly appreciate the scope of the questions involved in the presently considered legislation.

Congress by statute provided in the Act of 1910,[4] as amended by the Act of 1918,[5] that when a patented invention is used or manufactured by or for the United States

[2] 56 Stat. 1013 (1942), 35 U. S. C. A. §§ 89-96.

[3] 50 Stat. 751 (1937), 28 U. S. C. A. § 401.

[4] 36 Stat. 851, 35 U. S. C. A. § 68.

[5] 40 Stat. 705, 35 U. S. C. A. § 68.

without license from the owner, the latter's remedy for recovery of his compensation should be by suit against the United States in the Court of Claims. Thus, patents could be infringed in the course of governmental production or procurement free from threat of injunction against the manufacturer for use of the invention, leaving the amount to be paid to the patentee to be adjusted by suit in the Court of Claims. The constitutionality of this legislation has been upheld. Crozier v. Krupp, 224 U. S. 290, 307 (1912); Richmond Screw Anchor Co. v. United States, 275 U. S. 331 (1928).

This legislation and the decisions upholding it go very far in taking away any element of startling novelty which might impress one first confronted with the 1942 statute. The monopoly given to a patentee, itself a right created by federal legislation, may be in effect requisitioned by the United States in carrying out its constitutional powers, leaving the patentee to recover through litigation the value of the partial appropriation of his patent right. The upholding of this statute demonstrates the constitutionality of the exercise of eminent domain in the patent field, and, likewise, the sufficiency of the provision for recovery of compensation by a suit in the Court of Claims.

The 1910 statute, as amended, did not cover quite the entire field. If the patentee had licensed the contractor to use the invention the statute was not available. Newport News Shipbuilding & Dry Dock Co. v. Isherwood, 5 F. [fol. 145] (2d) 924 (C. C. A. 4, 1925), cert. den. 269 U. S. 592 (1925). In such a case there was no threat of injunction for infringement of the patent which could stop the supplying of goods for the use of the United States. But the testimony presented at the Congressional hearings prior to the passage of the 1942 Act showed a difficulty which, while less acute than the possibility of injunction, was nevertheless thought to be important.[6] It was developed that contractors supplying materials to the Government were under license contracts with patent owners entered into with peacetime scales of production in mind. License rates which were fair enough on a peacetime production scale became unduly high when the demand was increased many-fold by

[6] Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d Sess., October 13-15, 1942) pp. 3, 9, 17-19, 21, 32, 42-44.

the Governmental requirements for global war. The result was high cost of the articles to the public and what was considered to be an unduly rich reward to the owner of a particular patent whose licensee was producing war goods for the United States. Congress, with these considerations in mind, passed the Act of October 31, 1942, the constitutionality of which is questioned here. The statute, the pertinent part of which is quoted in the margin,[7] fills the gap left

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[7] Sections 1 and 2 read as follows:

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however*, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable

by the Act of 1910, as amended. It permits a Governmental [fol. 146] agency to adjust royalty payments to a patentee if the payments provided for in the royalty agreement are thought to be too high. The patent owner is given the opportunity to be heard concerning the matter before the Governmental agency and if the price to be paid is not fixed to his satisfaction as a result of such a hearing he has the right to sue the Government for his compensation.

What we have here is a taking of private property for public use. The property involved is the patent owner's

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time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise."

royalty rights under the license with the manufacturer. No one doubts, of course, the power of the Government to take private property for public use if the constitutional requirements for compensation are met. The necessity for the taking in a particular instance is for the legislative body, not the courts, assuming that the purpose is one for which the power might be exercised. North Laramie Land [fol. 147] Co. v. Hoffman, 268 U. S. 276 (1925); Joslin Co. v. Providence, 262 U. S. 668 (1923); Bragg v. Weaver, 251 U. S. 57 (1919).

Was the taking provided for in the 1942 statute one for a public use? It certainly was if it was in pursuance of the war power of the United States, expressly delegated to the national Government by the Constitution. Furthermore, we have authority which supports appropriations in the patent field in the decisions, already cited, applying the 1910 Act. Our only new question here, therefore, is the public use aspect of the extension by legislation to include the taking over of license agreements as well as patent rights not subject to such agreements. It hardly requires discussion to demonstrate that the scope of Governmental activity involved in the prosecution of a war upon the scale which armed conflict involves today reaches far beyond that pertaining directly to the clash of arms. It justifies legislation providing for price control of commodities, Yakus v. United States, 321 U. S. 414 (1944), the fixing of rents, Bowles v. Willingham, 321 U. S. 503 (1944), the furnishing of housing for workers in communities where war goods are made and the determination of what the houses shall be, United States v. City of Chester, — F. (2d) — (C. C. A. 3, 1944). Total war, today, is not a figure of speech but a grim fact.

The readjustment of royalties to be paid to a patent owner of his licensee upon articles supplied to the United States in wartime is also within the scope of the conduct of total war. The demands of the war effort have made first call upon the industrial power of the nation to an extent hitherto unknown. Goods in gigantic quantities are produced as a result of this mobilization. They must be paid for by the taxpayers of the United States. A legislative provision, the purpose of which is to secure the necessary materials at reasonable prices, is not less a part of the general war effort than the procurement of goods of war themselves. The subject-matter of the Royalty Adjust-[fol. 148] ment Act is clearly within the war power of Congress.

We think the statute may constitutionally be applied to royalties which had accumulated between the passing of the statute and the giving of the notice to the patentee by the War Department and also to those which had accumulated prior to the statute. It is especially provided by the Act that the public is to get the benefit of any readjustment in royalties made by a reduction in the price paid for goods purchased from the licensee. The wartime conditions which prompted the passing of the statute existed prior to the date of its enactment and the statute seeks to cover them. It is true that in so doing the public right is asserted against the individual patent owner who has made an advantageous contract for the use of his patent. If the public right is constitutionally asserted within any particular field it prevails over private contracts even in cases of exercise of police or other regulatory power where the person affected is not given compensation. Thus a man who has secured a contract for a free pass cannot claim it against Congressional legislation invalidating his agreement. Louisville & Nashville R. Co. v. Mottley, 219 U. S. 467 (1911). Nor can a shipper who has secured a favorable rate by contract have the advantage of that agreement when legislation provides a different rate. New York v. United States, 257 U. S. 591, 600, 601 (1922). Nor can one with a profitable contract for the sale of intoxicating liquor enforce it after the sale of the subject-matter has been forbidden. Boer v. Garcia, 240 N. Y. 9, 147 N. E. 231 (1925). Nor can a contractual provision for limited benefits to employees preclude the right to recovery under a subsequent enactment of the Federal Employers' Liability Act. Philadelphia B. & W. R. Co. v. Schubert, 224 U. S. 603 (1912). So, here, the exercise of the public use in the pursuance of the wide-sweeping and important war power cuts across private interests. The patent owner's right is, for war purposes at least, subject [fol. 149] to be appropriated in the public interest and his individual contract claims are subordinate thereto. If individual contract rights may be interfered with in pursuance of regulatory power exercised on behalf of the general public it is even clearer that such rights are subordinate to the public interest when compensation is given the individual for such interference.

We pass then to the question of compensation. Alma complains that the hearing before officials of the War De-

partment was, as to it, a deprivation of constitutional rights. The hearing, or conference, is provided for in the sections of the Act quoted above. Alma was notified of a proposed action under the statute with regard to its license agreement with Timken. It appeared by its president, accompanied by counsel, and was heard. Alma complains that the scope of the notice given it and the order, following the hearing, reducing its fees under the license agreement to nothing did not correspond; that is, that the order was not responsive to the notice. We think that the complaint in this respect misconceives both the nature of the hearing and the order which resulted therefrom. The hearing provided for is not in the nature of a complaint before a regulatory agency, but, instead, gives an opportunity for possible amicable adjustment between the Government agency and the patent owner. But the result does not bind the patent owner. By the express terms of the statute he is entitled to sue for what he believes himself to be entitled and the conclusions of the administrative officer are in no way binding upon him or the court.[8] Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it. The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right and when its results are [fol. 150] not binding upon the patent owner if he later seeks compensation through court action.

The provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation. Crozier v. Krupp, 224 U. S. 290 (1911); Identification Devices v. United States, 121 F. (2d) 895 (App. D. C. 1941), cert. den. 314 U. S. 615 (1941), 314 U. S. 587 (1942), reh. den. 314 U. S. 710, 714 (1941), 315 U. S. 779 (1942); Pierce v. Submarine Signal Co., 25 F. Supp. 862 (D. C. Mass. 1939). This in itself would be enough to uphold the constitutionality of a statute upon this point. The constitutionality is not impaired by a provision for a con-

[8] The petition of December 7, 1943 by Alma to Review and Vacate Royalty Adjustment Order No. W-3 will be dismissed for want of jurisdiction.

ference or hearing prior to court action which, if satisfactory, amicably adjusts that which otherwise would take litigation to settle. Our conclusion is that the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power. It simply goes the one step further to cover the exercise of that power in the field of patents, which had already been made by the Act of 1910, as amended. The provision of the law for compensation to the owner is within the constitutional requirement of due process of law. Alma, denied payment under the royalty agreement, is entitled to sue for whatever royalties it believes itself to be entitled and no administrative determination that it is not entitled to them will interfere in its suit. In upholding the constitutionality of the statute we do not, of course, make any determination with regard to the validity or lack of validity of the patents involved in the original litigation.

Nor do we by this decision upholding the Royalty Adjustment Act of 1942 deprive Alma of the benefit of any estoppel secured by the judgment. We therefore direct the following disposition of the case. Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to [fol. 151] proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

[fol. 152] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT, OCTOBER TERM, 1943

No. 8300

THE TIMKEN-DETROIT AXLE COMPANY

vs.

ALMA MOTOR COMPANY, Appellant

Present Maris, Goodrich and McLaughlin, Circuit Judges

ORDER VACATING PARAGRAPH 5 OF DISTRICT COURT JUDGMENT, ETC.—August 7, 1944

On Appeal from the District Court of the United States, for the District of Delaware

This cause came on to be heard on the transcript of record from the District Court of the United States, for the District of Delaware, and was argued by counsel.

On consideration whereof, it is now here ordered and adjudged by this Court that paragraph 5 of the judgment of the said District Court in this case be, and the same is hereby vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

August 7, 1944.

By the Court, Goodrich, Circuit Judge.

[File endorsement omitted.]

[fols. 153-155] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER GRANTING APPELLANT LEAVE TO FILE A PETITION FOR REHEARING OUT OF TIME—September 7, 1944

And now, to wit, September 7, 1944, upon consideration of the petition by counsel for appellant, and the mandate of this court not having issued,

It is Ordered that the petition for rehearing which has been tendered by counsel for appellant may be forthwith filed out of time.

By the Court, Jones, Circuit Judge.

[File endorsement omitted.]

[fol. 156] IN THE UNITED STATES CIRCUIT COURT OF APPEALS, FOR THE THIRD CIRCUIT

[Title omitted]

PETITION FOR RE-HEARING—Filed September 7, 1944

Now comes appellant, Alma Motor Company, by its counsel and respectfully petitions this Court under the provisions of its Rule 35 for a re-hearing in the above entitled cause.

[fol. 157] FOREWORD

As the decision of this Court and the disposition of this cause ordered thereby has raised vital and decisive jurisdictional questions heretofore not discussed and apparently not considered either by Court or counsel, we feel it imperative that we first direct attention to the following:

With respect to all of the transfer cases here in issue which were delivered by Timken to or for the Government prior to July 28, 1943, the date of Royalty Adjustment Order W-3, the situation is as follows:

(a) there never was and

(b) there is not now *any public interest* in (1) any royalty payments by Timken to Alma on these particular cases

or (2) any royalty issue between Timken and Alma on these particular cases.* Since Timken elected to and did sell and deliver these particular transfer cases without including any charge to the Government for royalties to Alma in the sales price, any obligation to pay Alma royalties on these particular transfer cases is a jeopardy, not of the Government but of the Timken company exclusively. Only a specific agreement by and between the Government and Timken could have created any present public interest or involvement in such *uncharged* royalty obligations. [fol. 158] Any and all issues concerning royalties on these particular transfer cases (delivered by Timken prior to July 28, 1943, on which royalties to Alma were not included in the sales price) are issues solely between Timken and Alma and therefore:

(a) not matters of public interest;

(b) not within the jurisdiction of the Court of Claims;

(c) not in any sense within any provision or provisions of public Law 768;

(d) This Court should adjudicate this issue (between Timken and Alma) on its merits;

(e) Only royalties to Alma on transfer cases supplied by Timken after July 28, 1943, can possibly be matters for adjudication by the Court of Claims.

[fol. 159] STATEMENT OF FACTS

Jurisdiction of this cause became fully and properly vested in this Court by reason of an appeal from the District Court for the District of Delaware from a judgment of such Court filed December 2, 1942 (R. 367-a, 368-a), opinion filed September 23, 1942 (R. 348-a 366-a) in an action brought by The Timken-Detroit Axle Company under the Declaratory Judgment Act of June 14, 1934, as amended (Sec. 274-d, Judicial Code; 28 USCA § 400). The complaint sought a declaration that a certain patent owned by appellnt, Alma Motor Company, covering a mechanism known as a "transfer case," which Alma had licensed Timken to use for a stipulated royalty was invalid, and further

*Since royalties were paid by Timken to Alma on T-43-P-1 and T-43-V-1 transfer cases these are not here in issue.

that transfer cases manufactured by Timken did not come within the scope of the License Agreement so as to require payment of royalties. (Opinion of this Court, filed August 7, 1944, First Par.) Alma counterclaimed for damages on account of the alleged unpaid royalties. The District Court held that Timken, as licensee, was estopped to contest validity and that as to certain of the transfer cases manufactured by Timken, it, the "plaintiff should have paid to defendant royalties in accordance with license agreement on all such auxiliary transfer cases," (Judgment ¶4, R. 368-a), and that "The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent, either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant" (Judgment, Par. 5; R. 368-a).

[fol. 160] Appellant, Alma Motor Company, filed its appeal on February 27, 1943, in this Court from the judgment of the Court below, limiting its appeal to Paragraph 5 of such judgment and only to that part thereof which referred to certain transfer cases designated as the "T-79" series. On October 31, 1942, Public Law 768, known as the Royalty Adjustment Act, was passed.

On December 30, 1942, the War Department issued a notice to the appellant, Alma Motor Company. (Ex. E attached to affidavit of William W. Schenck forming part of appellant's Petition to Review and Vacate, etc., filed in this Court.) On January 8, 1943, Alma Motor Company addressed a letter to the Chief of Ordnance requesting a hearing (Ex. F attached to Schenck affidavit). On February 8, 1943, a hearing was held by a Royalty Adjustment Board at Detroit, Michigan. On July 28, 1943, Royalty Adjustment Order No. W-3 was issued by the War Department (Ex. D attached to Schenck affidavit).

On August 24, 1943, plaintiff-appellee, The Timken-Detroit Axle Company, filed its notice and motion to dismiss Alma's appeal in this Court. In support of this motion to dismiss plaintiff-appellee filed, as Exhibit A, printed copy of Public Law 768; as Exhibit B, the affidavit of John E. Gallagher, patent attorney in charge of the Patent Department of The Timken-Detroit Axle Company, and, as Exhibit C, transcript of the proceedings of

the Royalty Adjustment Board held in Detroit, Michigan, on February 8, 1943.

This cause was first called for hearing before this Court on November 15, 1943. At the outset of the hearing the Department of Justice presented its motion for leave to file a memorandum brief as *Amicus curiae*, in support of Timken's motion to dismiss the appeal. Such leave was granted.

[fol. 161]

The Motion to Dismiss Appeal brought by Timken urged

> "(a) That this appeal be dismissed * * * because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768 or, in the alternative,
>
> (b) That this appeal be dismissed and that this cause be remanded to the District Court of Delaware with instructions to reconsider its judgment in light of the War Department order issued against the parties hereto on July 28, 1943, and to take such further action as may be appropriate in the circumstances."

The motion of the Government urged that appellant's appeal had been rendered moot by the issuance of the Royalty Adjustment Order No. W-3 under Public Law 768.

During the hearing on November 15, 1942, Judge Biggs, the senior and presiding judge, directed counsel for appellant to assert Alma's position with regard to the constitutionality of the Royalty Adjustment Act and granted counsel until November 29, 1943, to decide as to whether or not constitutionality of the Act was to be called into question. On December 4, 1943, appellant filed its petition to review and vacate Royalty Adjustment Order No. W-3 and subsequently appellant filed its brief in support of its petition to review and vacate.

On April 18, 1944, this cause was again called for hearing before this Court and was argued by counsel for appellant, counsel for appellee and by the Assistant Attorney

[fol. 162]

General, Hon. Francis M. Shea, for the Government, the entire argument being directed to the constitutionality of the Royalty Adjustment Order No. W-3 and Public Law 768.

On August 7, 1944, this Court filed its opinion upholding the constitutionality of the Royalty Adjustment Act of 1942,—Public Law 768, and directing the following disposition of the case:

> "Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot."

On August 21, 1944, appellant filed its Application for Stay of Mandate.

Immediately after the filing of appellant's Application for Stay of Mandate and the receipt by counsel of this Court's order granting such stay, counsel for appellant began a careful study of the record to ascertain those parts thereof that should be printed for submission to the Supreme Court to enable that Court to have a proper understanding of the questions to be raised by petition for certiorari.

As the opinion of this Court in upholding the constitutionality of the Royalty Adjustment Act,—Public Law 768, was largely predicated upon the proposition that the law [fol. 163] was an exercise of the right of eminent domain in the patent field (opinion, page 3) and that the Royalty Adjustment Order No. W-3 constituted "a taking of private property for public use" (opinion, page 5), it became important to determine the state of the record with respect to whether or not the Royalty Adjustment Order No. W-3 constituted "*a taking of private property for public use*" within the purview of Public Law 768. Upon examining the Royalty Adjustment Order No. W-3 it was found that by its terms it provided as follows: (1) The licensee, The Timken-Detroit Axle Company, was ordered to pay no further royalty to the licensor, Alma Motor Company (Par. 2, Royalty Adjustment Order; Ex. D, Schenck affidavit). (2) Timken was ordered forthwith to pay over to the

United States the balance of any royalties accrued or hereafter accruing under such license "which (a) on the effective date of said notice (December 30, 1942) were due and payable to licensor but were unpaid; or (b) fall due for payment at any time after the effective date of said notice * * *" (Par. 3); and (3) It ordered the licensee, The Timken-Detroit Axle Company to reduce the contract price on all material "for which licensee has not on the date of this order received payment" (Par. 4).

Due to the fact that the Royalty Adjustment Order No. W-3 by the provisions of Paragraph 4 thereof specifically exempted from its application any reduction of the contract price for any material delivered by the licensee, The Timken-Detroit Axle Company, "to or for the War Department or to any contractor or subcontractor for the War Department," for which The Timken-Detroit Axle Company had already received payment on the date of the order, July 28, 1943, it obviously became important that the record in the Supreme Court would show which of the [fol. 164] thousands of transfer cases enumerated in the affidavit of William W. Schenck heretofore filed in this Court and shown by the reports of The Timken-Detroit Axle Company to have been manufactured by it during the period from September 12, 1939, up to and including September 1942, had been fully paid for by the Government prior to July 28, 1943, the date of the Royalty Adjustment Order. Obviously, if no reduction to the Government in the contract price of transfer cases, by the amount of the royalty called for by the License Agreement of May 16, 1938, between Timken and Alma, was to be made by the terms of the Order on any transfer cases for which Timken had already received payment on July 28, 1943, the date when the order was issued, neither the Government nor the people of the United States could have any interest in such royalties whether they had already been paid by Timken to Alma or whether they remained unpaid.

In view of this state of affairs, the question would naturally arise in the presentation of the case to the Supreme Court as to which of the thousands of cases involved in this suit and manufactured during the years 1940, 1941 and 1942 were ones for which The Timken-Detroit Axle Company had received payment prior to July 28, 1943. It ap-

peared equally obvious that by far the greater part, if not all, of such transfer cases were ones for which Timken had been fully paid by the Government prior to the date of the Order. Due to the fact, however, that the trial of the cause below in the District Court before Judge Kirkpatrick took place in May, 1942 before the passage of Public Law 768 on October 31, 1942, naturally no testimony was offered or adduced on this subject. Indeed, any such testimony at that time in view of the state of the law then existent would not have been competent, material or relevant.

[fol. 165] Realizing that the record in the foregoing respect was incomplete and insufficient, but through no fault of appellant or counsel who represented it at the trial before Judge Kirkpatrick, present counsel contemplated an application to this Court for discovery concerning the date when payment was made to Timken by the Government for the transfer cases involved in this cause of action.

Upon further study and consideration of the record, however, counsel discovered that the affidavit of John E. Gallagher, the patent attorney "in charge of the Patent Department of The Timken-Detroit Axle Company" was decisive of the matter and rendered moot the question as to whether The Timken-Detroit Axle Company had received payment for the transfer cases here involved prior to the date of the Royalty Adjustment Order. We direct attention to the following from the Gallagher affidavit:

> "* * * our records show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of Ruggles and Smith patent 2,173,044, have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; that, up to the date of the War Department notice of December 30, 1942 ordering The Timken-Detroit Axle Company to discontinue royalty payments to Alma Motor Company, all royalties charged had been paid over to Alma Motor Company as provided in the agreement * * *."

Attention is specifically directed to the fact that the Gallagher affidavit is dated August 17, 1943. As it unequivocally and categorically states that "royalties were charged [fols. 166-194] *only* on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company," no royalties whatsoever were charged to the United States Government by the appellee, The Timken-Detroit Axle Company, on any or all the other transfer cases involved in this cause of action.

Therefore, there is no public interest involved in the right of appellant, Alma Motor Company, to recover the royalties, held by the District Court to be payable by Timken to Alma by the terms of its private contract with Alma, on any transfer cases which Timken manufactured and sold prior to August 13, 1943, the date of the Gallagher affidavit.

Likewise there is no public interest involved in the right of Alma to recover its royalties on any other transfer cases, in the sale price of which no royalties to Alma have been included and which are dominated by any of the claims of the Ruggles and Smith patent in suit, and specifically on the T-79 series of cases involved in appellant Alma's appeal.

[fol. 195] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER AMENDING OPINION—Oct. 2, 1944

Present: Maris, Goodrich, McLaughlin, JJ.

And Now, to wit: this 2nd day of October, 1944, it is ordered that the opinion of the Court filed August 7, 1944, be and the same is hereby amended by deleting the word "again" at the end of the second line on page ten of the printed opinion so that the last sentence of the said opinion shall read as follows:

> "Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no fur-

ther therein unless and until it shall appear to the Court that a justiciable controversy exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot."

By the Court, Goodrich, Circuit Judge.

[File endorsement omitted.]

[fol. 196] In the United States Circuit Court of Appeals for the Third Circuit

[Title omitted]

Order Denying Petition for Rehearing—October 2, 1944

And Now, to wit October 2, 1944 after due consideration, the petition for hearing in the above-entitled case is hereby denied.

John Biggs, Jr., Circuit Judge.

[File endorsement omitted]

[fol. 197] Clerk's Certificate to foregoing transcript omitted in printing.

[fol. 198] In the Supreme Court of the United States

[Title omitted]

Stipulation Respecting Printed Record—Filed Oct. 16, 1944

In accordance with the provisions of Rule 38 (8) of the Rules of the Supreme Court of the United States, it is hereby stipulated by and between counsel for the respective parties hereto that the following material be printed as constituting all of those parts of the record in the Third Circuit Court of Appeals necessary for the consideration of the questions to be presented to the court by a Petition for Writ of Certiorari to be filed herein and that all other parts of

said record in said Court of Appeals be omitted as not essential to a consideration of such questions.

(1) Pages 1a to 24a of Appellant's Appendix.

(2) Supplementary Appendix to Brief for Appellant, pages 1b to 14b.

(3) Pages 343a to 368a, inclusive, and Notice of Appeal, page 369a of Appellant's Appendix.

(4) Motion to Dismiss Appeal, etc. (4 typewritten pages), including the following attached thereto:

Exhibit A, Public Law 768
Exhibit B, affidavit of John E. Gallagher
Exhibit C, Transcript of Proceedings * * * before Major W. Cockrell (27 pages)
Exhibit C, License Agreement forming part of and attached to Transcript of Proceedings (photostatic copy, 4 pages)
Exhibit D, Royalty Adjustment Order (photostatic copy, 7 pages).

(5) Motion by the United States for Leave to File a Memorandum Brief as Amicus Curiae.

[fol. 199] (6) Order of Third C. C. A. granting Motion for Leave to File Brief as Amicus Curiae.

(7) Petition to Review and Vacate Royalty Adjustment Order W-3 of the War Department (6 typewritten pages) including:

Affidavit of William W. Schenck (4 typewritten pages)
Exhibit E (photostatic copy, 2 pages) War Department notice of December 30, 1942.
Exhibit F, letter of January 8, 1943, (photostatic copy, 1 sheet) to General L. H. Campbell, Jr.
Exhibit G (photostatic copy) letter of January 13, 1943, to William W. Schenck, president of Alma Motor Company from War Department.
Exhibit H, letter of January 28, 1943, to William W. Schenck, president of Alma Motor Company from War Department.

(8) Response by the United States to Certification * * * and Motion for Leave to Intervene (2 pages).

(9) Order filed August 7, 1944, Denying Petition to Review and Vacate.

(10) Opinion of the Court filed August 7, 1944, (printed copy, 10 pages).

(11) Order Vacating paragraph 5 of District Court Judgment Remanding Case, etc. filed August 7, 1944.

(12) Petition for Rehearing (pages 1 to 11, inclusive, of printed copy).

(13) Order Amending Opinion filed October 2, 1944.

(14) Order Denying Petition for Rehearing filed October 2, 1944.

(15) Third C. C. A. Clerk's Certification.

I. Joseph Farley, Attorney for Alma Motor Company; William A. Strauch, Attorney for Timken-Detroit Axle Company.

October 13, 1944.

[fol. 200] SUPREME COURT OF THE UNITED STATES

ORDER ALLOWING CERTIORARI—Filed February 5, 1945

The petition herein for a writ of certiorari to the United States Circuit Court of Appeals for the Third Circuit is granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

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CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

No. [redacted] 16 11

ALMA MOTOR COMPANY,
Petitioner,

vs.

THE TIMKEN-DETROIT AXLE COMPANY
Respondent

UNITED STATES OF AMERICA,
Intervenor

PETITION FOR WRIT OF CERTIORARI AND BRIEF IN SUPPORT THEREOF

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

No. .....

ALMA MOTOR COMPANY,
Petitioner,

vs.

THE TIMKEN-DETROIT AXLE COMPANY
Respondent

UNITED STATES OF AMERICA,
Intervenor

PETITION FOR WRIT OF CERTIORARI

To the Honorable, the Chief Justices and the Associate Justices of the Supreme Court of the United States:

Your petitioner, Alma Motor Company, respectfully prays that a writ of certiorari issue to review a decision, entered in the above entitled cause, by the United States Circuit Court of Appeals for the Third Circuit, on the

7th day of September 1944, upon which decision the said court on October 2nd, 1944 entered orders (1) amending its opinion aforesaid (R. 129-130) and (2) denying the said Alma Motor Company's petition for rehearing (R. 130). This case as so amended is reported at 144 F. 2d. 714.

October 16, 1944, certified transcript of the record in this case, including the proceedings in the Third Circuit Court of Appeals was filed in this court. In accordance with the provisions of Rule 38 (8) of the Rules of the Supreme Court of the United States, a stipulation (R. 130-132) between counsel for the respective parties hereto was entered into whereby the record as printed for, and as now on file in, this court contains only the matter essention to a consideration of the questions presented by this petition.

SUMMARY STATEMENT OF THE MATTER INVOLVED

"In the early part of 1938, the plaintiff, Timken, the defendant, Alma, and a third company, Herrington, were in interference, each with a patent application for a transfer case. The three devices were essentially the same and there were 15 counts in the interference. After some preliminary sparring in the Patent Office, there was a meeting between representatives of the three parties at the Book-Cadillac Hotel in Detroit in May, 1938 at which it was agreed that Alma should have the patent and would license the other two when it

> issued. * * * After the conference, Timken and Herrington formally conceded priority to Alma, Alma disclaimed certain counts of the interference which the parties had agreed were anticipated by prior art which had been produced and studied at the conference, and Alma and Timken executed the license agreement in question, Herrington dropping out because it had come to the conclusion that it did not want to manufacture the cases." Dist. Ct. Opinion (R. 33-4)

As a result of the foregoing, the Ruggles and Smith patent No. 2,173,044 was issued to petitioner, Alma, September 12, 1939.

The patent covers a mechanism known as a transfer case, which is an auxiliary transmission by which the drive of an automobile engine, in addition to the conventional driving of rear wheels, is extended to drive the front wheels.

January 23, 1941, respondent, The Timken-Detroit Axle Company, by filing its complaint (R. 2-9) in the United States District Court for the District of Delaware, initiated the proceedings which have brought the parties before this tribunal. Respondent under the Declaratory Judgment Act (Section 274-d Judicial Code; 28 U.S.C.A. 400) sought a determination that petitioner's United States Letters Patent 2,173,044 (Application Serial No. 7751), issued to Ruggles and Smith September 12, 1939, is invalid; not infringed by the structures manufactured, used and/or sold by the respondent (R. 7, 9); and further that the respondent—although a license agreement (R. 88-90) existed between petitioner and respondent, wherein the latter was licensed to practice the invention of the

aforesaid patent—was not obligated to pay royalties upon any of the transfer cases manufactured by respondent (R. 8).

May 5, 1944, petitioner filed an answer and counterclaim (R. 9-13) for damages resulting from respondent's refusal to pay royalties under the said license agreement.

May 18 to 22, 1942, the case duly came to trial and was tried in open court before District Judge Kirkpatrick.

September 23, 1942, District Judge Kirkpatrick filed his opinion (R. 33-49) wherein he held that the respondent Timken, being a licensee under the aforesaid patent, was estopped to contest the validity of said patent and further that certain specified transfer cases manufactured by the respondent infringed certain of the claims of the patent but that other transfer cases did not infringe.

October 31, 1942, Public Law 768, known as the Royalty Adjustment Act (R. 56-59), was passed.

December 2, 1942, judgment was entered in the District Court decreeing:

> "1. That Letters Patent of the United States No. 2,173,044, issued September 12, 1939, on the invention of Ruggles and Smith for 'Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles' is owned by the defendant, Alma Motor Company.
>
> "2. Plaintiff is a licensee under such patent and has been since the issuance thereof on September 12, 1939.
>
> "3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein.

"4. That plaintiff has manufactured and sold auxiliary transmission mechanism since the issue date of said Ruggles and Smith patent which are dominated by one or more claims of such Ruggles and Smith patent," the Court specifying the specific transfer cases and the claims by which they are dominated, "*and that plaintiff should have paid to defendant royalties in accordance with the license agreement on all such auxiliary transfer cases.*" (Emphasis ours)

"5. The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant in this suit."

December 30, 1942, the office of the Chief of Ordnance, War Department, issued a notice, under Public Law 768, (R. 106-7) stating that royalty payments by respondent to petitioner were believed to be excessive and directing that no further royalties be paid in excess of that to be specified in an order to be subsequently issued.

January 8, 1943, pursuant to said notice, petitioner by written request (R. 107-8) to the Chief of Ordnance, War Department, asked that a hearing be granted petitioner.

January 28, 1943, a deputy ordnance assistant notified petitioner that the requested hearing would be had at Detroit, Michigan, on February 8, 1943 (R. 109-10).

February 8, 1943, a hearing before a Royalty Adjustment Board, consisting of two army ordnance officers and a naval officer, was held at Detroit, Michigan (R. 61-86).

February 27, 1943, petitioner filed its appeal to the Third Circuit Court from that part only of the judgment contained in paragraph 5 thereof: petitioner's appeal being specifically limited, however, to those transfer cases manufactured by respondent, Timken, and designated as the T-79 cases (R. 51-2). Respondent filed no appeal whatsoever.

July 28, 1943, the War Department, allegedly "pursuant to authority contained in the Act of October 31, 1942" (Public Law 768) issued Royalty Adjustment Order No. W-3 (R. 93-97), which order *inter alia* directed (1) respondent—the licensee, The Timken-Detroit Axle Company—to pay no further royalty to the licensor, Alma Motor Company (R. 94, par. "2"), (2) Timken was ordered "forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing," under such license "which (a) on the effective date of said notice (December 30, 1942) were due and payable to licensor but were unpaid or (b) fall due for payment at any time after the effective date of said notice • • • " (R. 95 par. "3"); and (3) Timken was ordered to reduce the contract price on all material "for which licensee has not on the date of this Order received payment" (R. 95, par. "4").

On August 25, 1943, after the issuance of the aforesaid Order No. W-3, respondent Timken filed a motion (R. 53) to dismiss petitioner Alma's appeal to the Third Circuit Court of Appeals, which appeal had been filed on the 27th day of February 1943, as above stated. It was urged (a) that said appeal be dismissed "because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768"; (R. 53) or,

in the alternative (b) that the appeal be dismissed and the cause "be remanded to the District Court of Delaware with instructions to consider its judgment in light of the War Department order issued against the parties hereto on July 28, 1943, and to take such further action as may be appropriate under the circumstances." (R. 53)

November 15, 1943, when petitioner's appeal in the Third Circuit was called for hearing, the Department of Justice presented its Motion for Leave to File a Memorandum Brief as *Amicus Curiae* in support of Timken's motion to dismiss petitioner's appeal (R. 96-97). Such leave was granted. The motion of the Government urged that petitioner's appeal had been rendered moot by the issuance of Royalty Adjustment Order No. W-3 under Public Law 768 (R. 97).

The argument at the hearing on November 15, 1943, was directed solely to the motion to dismiss the appeal, the Court declining to hear argument on the merits at that stage of the proceedings. At the conclusion of the argument the Court directed counsel for petitioner to assert Alma's position with regard to the constitutionality of the Royalty Adjustment Act (R. 113).

December 6, 1943, in response to such direction, petitioner filed its Petition to Review and Vacate Royalty Adjustment Order No. W-3 (R. 98-103). The said petition invoked the Constitution of the United States for the protection of petitioner, Alma Motor Company's, rights (R. 101) and urged:

(1) That as the notice of the hearing by the Royalty Adjustment Board on February 8, 1943, which stated that

the hearing was to be held for the purpose of examining into the reasonableness of the royalty provided for by the license contract between the parties, did not correspond with the subject matter examined into at such hearing, viz., the validity of the Ruggles and Smith patent, therefore the hearing and the order issued as the result of such hearing did not constitute due process of law (R. 101).

(2) That the Royalty Adjustment Order No. W-3 was unconstitutional as retrospective and destroyed property rights of petitioner which had become legally and completely vested long prior to the issuance of said order (R. 101-102).

(3) That as the Order providing that there should be no payment of royalty under the contract was based upon a holding of invalidity of the Ruggles and Smith patent No. 2,173,044, predicated upon "an opinion of the Chief of Ordnance" arrived at prior to said hearing; as no evidence was produced at the hearing; no proper notice of hearing was given; and no findings made to support the legal conclusion of invalidity; petitioner was divested of vested property rights without due process of law (R. 102).

(4) That as Royalty Adjustment Order No. W-3 is clearly retrospective and destroyed property rights of petitioner which had become completely and fully vested prior to the issuance of such Order, Public Law 768 is unconstitutional, insofar as it authorized the issuance of the said Order, as violative of the provisions of the Fifth Amendment to the Constitution (R. 102).

(5) That as the said Royalty Adjustment Order No. W-3 and/or Public Law 768, purports to affect and modify

a contractual obligation between private parties by authorizing a defense to said contractual obligation nonexistent at law prior to October 31, 1942, and affecting property rights that had become legally and completely vested prior to said date, said Royalty Adjustment Order and/or Public Law 768 are invalid and unconstitutional (R. 102); and

(6) That insofar as Royalty Adjustment Order No. W-3 held a duly issued United States Letters Patent invalid or insofar as Public Law 768 authorized an Administrative Board of the Executive Department to pass upon the validity of a United States patent, said Order and/or Public Law 768 is invalid and unconstitutional as (a) constituting an arbitrary and capricious exercise of power and usurpation of a purely judicial prerogative by such an Administrative Board; (b) deprived appellant of a vested property right without due process of law in contravention to the explicit prohibitions of the Fifth Amendment to the Constitution of the United States; (c) violated the provisions of Article III, Section 2 of said Constitution and violated the intent and purpose of the second paragraph of Article VI of said Constitution.

December 7, 1943, the Clerk of the Third Circuit Court of Appeals duly certified to the Attorney General, pursuant to the Act of August 24, 1937 (28 USC 401), that appellant had challenged the constitutionality of the Royalty Adjustment Act of October 31, 1942, Public Law 768 (35 USC 89, et seq.) (R. 110). The Attorney General, in response to such certification, filed a petition in the name of the United States of America for leave to intervene.

April 18, 1944, the case was again called for hearing before the Third Circuit Court of Appeals, the hearing

being directed solely to the question of the constitutionality of Royalty Adjustment Order No. W-3 and Public Law 768, on briefs and argument by the Assistant Attorney General, the Honorable Francis M. Shea for the United States, and on briefs and argument by counsel for petitioner and respondent, respectively.

August 7, 1944, the Third Circuit Court of Appeals filed its opinion, by Circuit Judge Goodrich, holding *inter alia* that the Act of October 31, 1942, Public Law 768, provided for "a taking of private property for public use" (R. 116-117); that such taking was in pursuance of the war power of the United States (R. 117); that the statute could constitutionally be applied to royalties which had accumulated prior to the statute (R. 118), and that "the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120).

The Court then directed that Paragraph 5 of the judgment of the District Court, from which petitioner had duly filed its appeal, be vacated and the

> "cause remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot" (R. 120-121).

September 7, 1944, petitioner filed its petition for rehearing (R. 122-129) with the Third Circuit Court of Ap-

peals, showing that an affidavit (dated August 17, 1943, and filed in said Court by respondent Timken in support of its motion to dismiss petitioner's appeal therein) by John E. Gallagher, the patent attorney in charge of the Patent Department of respondent, The Timken-Detroit Axle company, stated

> "* * * our records show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of the Ruggles and Smith patent 2,173,044, have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; * * *" (R. 60)

In its petition for rehearing, petitioner urged that if royalties had not been charged to the Government on any of the transfer cases involved in the litigation, *there could be no public interest in any of the royalties*, i.e., the money adjudged by the District Court to be due and payable by respondent, The Timken-Detroit Axle Company, to petitioner, Alma Motor Company, and particularly the transfer cases sold by Timken to the Government prior to July 28, 1943, the date of issuance of the Royalty Adjustment Order No. W-3, and specifically the transfer cases designated as the T-79 cases involved in the merits of the appeal to the Third Circuit Court of Appeals in this case.

October 2, 1944, the Third Circuit Court of Appeals denied petitioner's petition for rehearing without opinion (R. 130) and made a slight modification of its order filed August 7, 1944 (R. 129-130).

JURISDICTION

(1) This is a suit arising under the Declaratory Judgment Act, Judicial Code, Sec. 274-d (28 U.S.C.A. 400) (R. 2, 8), and under the patent laws of the United States, Judicial Code, Sec. 24 (1 and 7), (28 U.S.C.A. 41, paragraphs 1 and 7) (R. 8).

(2) The jurisdiction of this Court is invoked under Sec. 240 (a) of the Judicial Code as amended by the act of February 13, 1925 (28 U.S.C.A. 347).

(3) The date of the Judgment which petitioner seeks to have reviewed is October 2, 1944.

(4) Among the cases believed to sustain jurisdiction to issue the writ, where questions of federal law of far-reaching public importance are involved, even where there are no conflicting decisions, are:

Muncie Gear Works v. Outboard Marine & Mfg. Co., 315 U. S. 759;

Mishawaka Rubber & Woolen Mfg. Co. v. Kresge Co., 316 U. S. 203;

Exhibit Supply Co. v. Ace Patents Corp., 315 U. S. 126;

Morton Salt Co. v. G. S. Suppiger, 314 U. S. 488;

Lincoln Engineering v. Stewart Warner Corp., 303 U. S. 545.

THE QUESTIONS PRESENTED

1. May the jurisdiction of a Federal District Court and/or a Federal Court of Appeals once properly acquired over a case, to which their constitutional judicial powers properly extend under the provisions of Sections 1 and 2 of Article III of the Constitution of the United States, be thereafter constitutionally ousted by an Order of an Administrative Board of the Executive Department allegedly issued pursuant to the provisions of an Act of Congress passed subsequent to the acquisition of such jurisdiction?

2. May an Order of an Administrative Board allegedly issued pursuant to an Act of Congress, or said Act, insofar as it authorizes the issuance of such Order, be constitutional, as due process of law in view of the prohibitions of the Fifth Amendment to the Constitution of the United States, if

(a) such Order is retroactive;

(b) it destroys the rights of a party, under a private contract entered into long prior to the passage of the Act, to money which had become due and payable prior to the passage of the Act; and

(c) which money had been adjudged by a Federal District Court also prior to the passage of the Act to be so due and payable?

3. May the Federal right of eminent domain be constitutionally exercised under the war power of Congress

(a) to justify the sequestration or seizure by the Government, not of physical private property, the use of which is necessary for a public purpose, but of the mere money due from one private person to another private person under a purely civil contract entered into long prior to the passage of the Act, and which money was also judicially determined to be due and payable prior to the passage of such Act;

(b) in the absence of any finding in the particular case of a necessity for the taking;

(c) in the absence of any showing or finding in the record that the money so sequestered had ever been charged, or was chargeable to, the United States;

(d) and despite a contrary showing and direct averment in the record that the money due as royalties under said contract had never been charged to the United States?

(e) to authorize the private enrichment of a judgment debtor by ordering such debtor not to pay money adjudged to be due and payable to a judgment creditor as patent royalties under a private contract when such royalties were never charged to, nor paid by, the United States, and therefore there was and could be no public interest in the money due and payable by the private debtor to the private creditor.

4. May a Royalty Adjustment Order, allegedly issued pursuant to the Act of October 31, 1942 (Public Law 768), be constitutional under the provisions of Sections 1 and 2 of Article III of the Constitution of the United States if

such Order and the Act, insofar as it authorized the issuance of such Order, affects and modifies contractual obligations between private parties under a contract entered into prior to the passage of the Act; destroys the right of the creditor to proceed against the debtor with pending litigation in constitutional Federal courts; compels the creditor to institute a new suit against a different defendant, viz., the Government, in a different tribunal, the legislative Court of Claims; and authorizes a defense by the Government to the contractual obligation, which defense was non-existent at law to the debtor prior to the passage of such Act?

5. (a) May an Order issued by an Administrative Board of the Executive Department which, in effect, holds invalid a duly issued United States Letters Patent, be constitutional under the provisions of Sections 1 and 2 of Article III and paragraph 2 of Article VI of the Constitution of the United States; especially when such Order

(b) constitutes a usurpation of a purely judicial prerogative by such Administrative Board; or be constitutional as due process of law under the Fifth Amendment to said Constitution when such Order:

(c) was issued as the result of a hearing, notices of which did not correspond to the subject matter examined into at such hearing;

(d) was issued as the result of a hearing at which no evidence was introduced bearing on the question of invalidity;

(e) was issued as the result of a hearing, the transcript of the proceedings of which show that the holding of invalidity was based upon a mere opinion of an executive officer?

REASONS FOR GRANTING THE WRIT

1 (a) The Third Circuit Court of Appeals in refusing to proceed to hear and decide petitioner's appeal on the merits decided a Federal question of far-reaching public importance in conflict with the applicable decision of this court in *Smith v. McIver*, 9 Wheat 532, 535, to the effect that "the court which first has possession of the subject *must* decide it," and the applicable decision of this Court under the Act of 1910 as amended in 1918 in *Sperry Gyroscope v. Arma Engineering Co.*, 271 U.S. 232, to the effect that as there was nothing in the Act that showed any clear purpose to take away the power to decide it became the duty of the court to consider and determine (271 U.S. at 235).

1 (b) The Third Circuit Court of Appeals in ordering the District Court to proceed no further in this case to carry into effect the previously entered judgment of the District Court decided a Federal question of far-reaching public importance in conflict with the applicable decision of this Court in *McCullough v. Virginia*, 172 U.S. 102, to the effect that the right acquired by a judgment creditor prior to a repealing act was not and could not be taken away by such act (172 U.S. at 125); in conflict with *Hodges v. Snyder*, 261 U.S. 600, to the effect that the private rights of parties which have been vested by the judgment of a court cannot be taken away by subsequent legislation, but must be thereafter enforced by the court regardless of such legislation (261 U.S. at 603), and also

in conflict with *Murray's Lessee et al. v. Hoboken Land and Improvement Co.* 18 How. 272, holding that Congress cannot withdraw from judicial cognizance any matter which from its nature is the subject of a suit at the common law or in equity (18 How. at 284).

2 (a) The Third Circuit Court of Appeals, in deciding that the Act of October 31, 1942 could constitutionally be applied to royalties which had accumulated prior to the passage of the statute, decided a Federal question of far-reaching public importance in conflict with the applicable decisions of this Court in *Osborne v. Nicholson*, 13 Wall. 654, *Nichols v. Coolidge*, 274 U.S. 501, *Blodgett v. Holden*, 275 U.S. 142, *Untermeyer v. Anderson*, 276 U.S. 440, *Richmond Screw Anchor Co. v. United States*, 275 U. S. 331.

2 (b). The Third Circuit Court of Appeals, by its decision in this case, decided a Federal question of far-reaching public importance in conflict with the applicable decisions of this Court in *Hepburn v. Griswold*, 8 Wall. 603 and *Bradley v. Lightcap*, 195 U.S. 1.

2 (c). The Third Circuit Court of Appeals, by its decision in this case, decided a Federal question of far-reaching public importance in conflict with the applicable decisions of this Court in *McCullough v. Virginia*, *supra*, and *Hodges v. Snyder*, *supra*.

3 (a). The Third Circuit Court of Appeals, by deciding in its opinion in this case that the taking of money by the Government due from one private person to another private person under a purely civil contract was an exer-

cise of the right of eminent domain under the war powers of Congress, decided a Federal question of far-reaching public importance, which question has never been directly ruled upon by this Court.

3 (b). By its opinion in this case the Third Circuit Court of Appeals decided a Federal question of far-reaching public importance in conflict with the applicable decisions of this Court in *Mitchell v. Harmony*, 13 How. 115.

3 (c) and (d). The decision of the Third Circuit Court of Appeals in this case is in direct conflict with the provisions of Section 7 (R. 58) of the Act of October 31, 1942 (Public Law 768) that the " • • • Act shall apply to all royalties directly or indirectly charged, or chargeable to, the United States • • • " and in holding that the taking provided for in Royalty Adjustment Order No. W-3 was "a taking of private property for public use" (R. 116), particularly in view of the fact that the record is barren of any showing or finding that the money ordered to be withheld from petitioner by said Order had ever "been charged, or was chargeable to, the United States" and despite the contrary showing and direct averment in the record that the money due petitioner as royalties under the license contract had never been charged to the United States; the decision in the foregoing respects ruled on a question of far-reaching public importance never directly ruled on by this Court.

3 (e). The Third Circuit Court of Appeals, by its decision in this case, decided a Federal question of the utmost far-reaching public importance in conflict with the applicable decision of this Court in *Osborne v. Nicholson, supra.*

4. The judgment and order of the Third Circuit Court of Appeals vacating paragraph 5 of the District Court in this case and authorizing the District Court to dismiss the complaint herein as moot, and by its opinion in holding that the relegation of petitioner to a suit in the Court of Claims, against a different defendant with a different defense, as a substitute for proceeding to carry into execution the judgment already acquired by petitioner in its favor, constitutes due process of law, decided a Federal question of far-reaching public importance in conflict with the applicable decisions of this Court in *Lynch v. United States*, 292 U.S. 571, and *Edwards v. Kearzey*, 96 U. S. 595.

5 (a). The Third Circuit Court of Appeals, by its opinion in this case, decided a Federal question of far-reaching public importance in direct conflict with the applicable decision of this Court in *McCormick Harvesting Machine Co. v. Aultman-Miller Co.*, 169 U.S. 606.

5 (b) and (c). The Third Circuit Court of Appeals, by its judgment in this case, decided a Federal question of far-reaching public importance in direct conflict with the applicable decisions of this Court in *Standard Oil Co. of Indiana v. Missouri*, 224 U.S. 270, *Powell v. Alabama*, 287 U.S. 45 and *Hagar v. Reclamation District* 108, 111 U.S. 701.

5 (d). The Third Circuit Court of Appeals, by its judgment in this case, decided a Federal question of far-reaching public important in direct conflict with the applicable decision of this Court in *American School of Magnetic Healing v. McAnnulty*, 187 U.S. 94.

Wherefore, your petitioner respectfully prays that the writ of certiorari be issued to the United States Circuit Court of Appeals for the Third Circuit, to the end that this cause may be reviewed by this Court; that the judgment of the Circuit Court of Appeals be reversed; that the cause be remanded with instructions to the Third Circuit Court of Appeals to proceed to hear petitioner's appeal therein on its merits and to direct the District Court to proceed to take such steps as may be necessary to put into effect the judgment of the Third Circuit Court of Appeals on petitioner's appeal and the District Court's judgment which had become final and that petitioner have such other and further relief as may be proper.

Respectfully submitted,

I. Joseph Farley,
Attorney for Petitioner.

BRIEF IN SUPPORT OF PETITION FOR CERTIORARI

OPINIONS BELOW

The opinion of the District Court is reported at 47 Fed. Supp. 582.

The opinion of the Circuit Court of Appeals for the Third Circuit is reported at 144 F. 2d 714.

GROUNDS ON WHICH JURISDICTION IS INVOKED

The date of the judgment to be reviewed and other details justifying jurisdiction are set forth at page 12 *ante* of the accompanying petition.

STATEMENT OF THE CASE

The foregoing petition contains a summary of the material facts necessary to an understanding of the reasons relied upon for the allowance of the writ as well as a statement of questions involved in the case. The matters presented for determination of this court relate solely to questions of law.

SPECIFICATIONS OF ERRORS

The errors which petitioner will urge if the writ of certiorari is allowed are that the Court below erred:

(1) In permitting its jurisdiction to be ousted by the Order of an Administrative Board of the Executive Department.

(2) In deciding that the rights acquired by a judgment creditor prior to the issuance of an Administrative Order under Public Law 768 to money held by a District Court to be due and payable prior to the passage of said Law could be taken away by the passage of such Act.

(3) In holding that the statute (Public Law 768) may constitutionally be applied to royalties which had become due and payable prior to the passage of said statute.

(4) In deciding that the Federal right of eminent domain may be constitutionally exercised under the war power of Congress to justify the sequestration or seizure by the Government of mere money due from one private person to another private person.

(5) In holding that the Federal right of eminent domain may be constitutionally exercised to justify the seizure or sequestration of mere money in the absence of any finding in the particular case for necessity for the taking.

(6) In holding that the Royalty Adjustment Order No. W-3 authorized the taking of private property for public use, in the absence of any showing or finding that

the money directed to be paid by said Order to the Treasurer of the United States had ever been charged, or was chargeable to, the United States and despite a contrary showing in the record that the money due as royalties had never been so charged to the United States.

(7) In not holding that there was a taking of private property for private use in violation of petitioner's constitutional rights.

(8) In not holding as unconstitutional, as a denial of due process of law, the provisions of Public Law 768 which make the sole and exclusive remedy by a creditor against his debtor under a patent royalty contract a suit against the Government in the legislative Court of Claims and authorizes a defense by the Government to the contractual obligation, which defense was non-existent at law to the debtor prior to the passage of such Act.

(9) In not holding as unconstitutional, as a denial of due process of law, Royalty Adjustment Order No. W-3, allegedly issued pursuant to the Act of October 31, 1942 (Public Law 768), when by its opinion in this case the Court in effect held said Order destroyed the right of a judgment creditor to proceed against his judgment debtor with pending litigation in the constitutional Federal courts and compels the judgment creditor to institute a new suit against a different defendant, namely the Government, with a different defense, non-existent at law to the debtor prior to the passage of such Act and in a different tribunal, the legislative Court of Claims.

(10) In not holding that an Order of an Administrative Board of the Executive Department which in effect holds invalid a duly issued United States Letters Patent is unconstitutional as a usurpation of a purely judicial prerogative by such Administrative Board.

(11) In not holding that an Order of an Administrative Board of the Executive Department, holding a duly issued United States Letters Patent invalid, which Order was issued as a result of a hearing, notice of which did not correspond to the subject matter examined into at such hearing, is unconstitutional as a denial of due process of law under the Fifth Amendment to the Federal constitution.

(12) In not holding that an Order issued by an Administrative Board of the Executive Department, holding invalid a duly issued United States Letters Patent, is unconstitutional when such Order was issued as a result of a hearing at which no evidence was introduced bearing on the question of invalidity.

(13) In not holding that an Order of an Administrative Board of the Executive Department, holding invalid a duly issued United States Letters Patent, is unconstitutional when such Order was issued as a result of a hearing, the Transcript of the Proceedngs of which show that such holding of invalidity was based upon a mere opinion of an executive officer of the Government.

(14) In directing that Paragraph 5 of the judgment entered by the District Court in this cause be vacated.

(15) In directing that the cause be remanded to the District Court with directions to proceed no further therein.

(16) In directing that the District Court may vacate all or any part of the remainder of the District Court's judgment and dismiss the complaint as moot.

ARGUMENT

POINT I.

On the proposition that the jurisdiction of a Federal District Court and/or a Federal Court of Appeals once properly acquired over a case over which the judicial power is specifically granted by the provisions of Sections 1 and 2 of Article III of the Constitution of the United States may thereafter be constitutionally ousted by an Order of an Administrative Board of the Executive Department allegedly issued pursuant to an act of Congress passed subsequent to the acquisiton of such jurisdiction.

There can be no doubt that the District Court had full jurisdiction of the subject matter. Indeed, the jurisdiction of the Court invoked originally by respondent Timken was fully admitted by both parties. As the jurisdiction of the District Court was properly acquired and exercised over such subject matter, the right of appeal to the Third Circuit Court of Appeals inevitably followed and was perfected and fully acquired by the filing by petitioner on February 27, 1943, of its appeal from that part only of the judgment contained in paragraph 5 but limited specifically, however, to those transfer cases manufactured by Timken prior to the filing of the complaint and designated as the T-79 cases.

After the filing of the appeal, the War Department of the United States on July 28, 1943, issued its Royalty Adjustment Order holding that a "fair and just royalty" would be $0.00, ordering Timken to pay no royalties in excess of this amount—nothing—to Alma, but instead to

pay the difference between nothing and the very low, reasonable and nominal royalty of 50¢ (½%) over to the Treasurer of the United States.

On August 25, 1943, respondent Timken filed its motion in the Third Circuit Court of Appeals to dismiss petitioner Alma's appeal therein "because of the transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768." After hearing and argument in the Court of Appeals during which petitioner attacked the constitutionality of the Royalty Adjustment Order and Public Law 768 and during which hearing the Government appeared in support of the motion to dismiss, the Third Circuit Court of Appeals ordered: that paragraph 5 of the judgment of the District Court be vacated; that the District Court take no further action in the case, and authorized the District Court to dismiss the complaint as moot, which would therefore render nugatory and unenforceable the judgment of the District Court that certain royalties were due and payable by respondent Timken to petitioner Alma and that such royalty should have been paid.

As the action of the Third Circuit Court of Appeals in agreeing to the contentions of respondent Timken and the Government that the Royalty Adjustment Order No. W-3, allegedly issued pursuant to the provisions of Public Law 768, rendered the subject matter in issue moot and that petitioner by said order and Public Law was relegated to a new action in the Court of Claims against a new party, the Government with a new defense, it violated a principle specifically enunciated many, many years ago by the great Chief Justice Marshall in the case of *Smith v. McIver, supra*, that "the Court which first has possession of the subject must decide it."

The decision of the Third Circuit Court of Appeals in this case, in refusing to consider and determine on its merits a case between citizens of different states over which the jurisdiction of the Court had become properly vested by reason of an appeal by petitioner from the District Court, and in vacating an important part of the judgment already entered and authorizing the District Court to dismiss the complaint in the case as moot (after a full trial on the merits thereof had been had and judgment entered therein) because of the issuance of a Royalty Adjustment Order by a purely Administrative Board of the Executive Department, strikes at the very heart and foundation of one of the strongest bulwarks of American civil liberties, namely, the independence of the Federal judiciary and is in complete derogation of Sections 1 and 2 of Article III of the Constitution of the United States, which specifically assigns the judicial power to the constitutional courts of the United States. The said Court by its ruling decided Federal questions of the most far-reaching public importance which, as we shall show, are in direct conflict with the applicable and pertinent decisions of this Court and which as far as we are aware, have never been over-ruled by this Court.

Although the Court of Appeals in its opinion did not directly rule that it had no jurisdiction over petitioner's appeal to it, nor directly rule that its jurisdiction was ousted by Royalty Adjustment Order No. W-3 and Public Law 768, its refusal to proceed to consider the case on its merits and its disposition of the case was a clear and unequivocal relinquishment of the court's jurisdiction and tantamount to a direct holding that the said Order and Public Law 768 not only relieved the court of the clear judicial duty which rested upon it to consider and determine the merits of the petitioner's appeal, but that the

said Order and Law deprived the court of its judicial power so clearly conferred upon it by Sections 1 and 2 of Article III of the Constitution.

Great stress was placed by the Government in brief and argument below on the decisions of this Court under the so-called Court of Claims Act of 1910, as amended by the Act of 1918. Likewise great reliance was placed upon this Court's decisions under the 1910 Act as justifying the upholding of the constitutionality of the Act of October 31, 1942 (R. 114, 119). Although the Third Circuit Court of Appeals referred in its opinion (R. 114) to the decisions of this Court in *Crozier v. Krupp*, 224 U.S. 290, and *Richmond Screw Anchor v. United States*, 275 U.S. 331, it apparently failed to take due cognizance of the case of *Sperry Gyroscope Co. v. Arma Engineering Co.*, 271 U.S. 232, to which we directed the Court's attention. This was a case wherein the Court of Claims had dismissed *for want of jurisdiction*. The pleadings showed that charge of infringement was based upon devices sold during the years 1918 to 1923, but the record did not disclose whether some of the devices were delivered before or after July 1, 1918, the date of the passage of the Act. This Court reversed and remanded the case stating

> "• • • The true intent and meaning of the statute is not free from doubt; but certainly there is nothing therein which shows any clear purpose to take away the power to decide. It became the duty of the court below to consider and determine whether, in the circumstances stated, appellee was relieved of liability and permitted by the statute to do what otherwise would have constituted a violation of appellant's rights. There was jurisdiction." (271 U.S. at 235-6).

The language of this court in the *Sperry* case is, we submit, particularly apposite to the situation in the case

at bar. Here, just as there, the true intent and meaning of the statute is not free from doubt. Here, just as there, there is nothing in the Act which shows any clear purpose to take away the power to decide. Here, as there, it certainly was the duty of the court in the circumstances to consider and determine those rights of petitioner presented by its appeal and over which the court so clearly had complete jurisdiction under the Constitution and under the provision of Sec. 240a of the Judicial Code; 28 U. S. C. A. 347.

The Order of the Third Circuit Court of Appeals in vacating paragraph 5 of the judgment of the District Court leaves the parties without any adjudication whatsoever of their respective rights as to all of the transfer cases concerning which the District Court held no royalties were due and payable by Timken to Alma, and would mean that after the Public Law is no longer applicable, six months after the termination of the present war (Public Law 768, Sec. 7, R. 58), the judgment of the District Court would not be *res judicata* as to any of these private rights of the parties even though the subject matter had been fully litigated in the District Court and properly brought under the jurisdiction of the Court of Appeals by petitioner's appeal.

The action of the Third Circuit Court of Appeals in ordering the District Court to proceed no further in this case thereby effectually tying the court's hands and preventing it from putting into effect its conclusions arrived at by its opinion entered September 23, 1942, prior to the effective date of Public Law 768, decided a question of far-reaching public importance in direct conflict with the decision of this court in *McCullough v. Virginia, supra,* to the effect that the right acquired by a judgment creditor prior

to a repealing act was not and could not be taken away by such act (172 U.S. at 125), and was in direct conflict with the case of *Hodges v. Snyder, supra,* to the effect that the private rights of parties which had been vested by the judgment of a court cannot be taken away by subsequent legislation but must thereafter be enforced by the court regardless of such legislation (261 U.S. at 603).

The decision of the Third Circuit Court of Appeals is also in sharp and direct conflict with the older case of *Murray's Lessee, et al. v. Hoboken Land Improvement Co.* (18 How. 272), which specifically held that Congress cannot withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law or in equity (18 How. at 284).

The District Court duly and properly held that royalties on a large number of transfer cases that had been manufactured and sold by respondent, Timken, should have been paid by Timken to Alma in accordance with the license agreement on all such auxiliary transfer cases (R. 49-50). *Respondent Timken took no appeal from such judgment* which was filed December 2, 1942. Therefore, on March 2 1943, such judgment became final and unassailable. Although we have not posed the question, we cannot refrain from remarking parenthetically that we question the jurisdiction of the Court of Appeals, in the absence of any fraud, to authorize the District Court to vacate that portion of the decree below which had become final nearly a year and a half prior to August 7, 1944, the date when the Court of Appeals entered its opinion and order in this case. Certainly this action of the Court of Appeals was an implicit holding by said court that the right acquired by the judgment creditor, the petitioner Alma, could be and was taken away by Public Law 768 and

Royalty Adjustment Order No. W-3, *contra McCullough v. Virginia, supra,* and a denial *contra Hodges v. Snyder, supra,* of the rule that the private rights of parties which have been vested by the judgment of the court cannot be taken away by subsequent legislation but must thereafter be enforced by the court regardless of such legislation. It was also an implicit holding, *contra Murray's Lessee et al. v. Hoboken Land Improvement Co., supra,* that Congress can withdraw from judicial cognizance any matter which from its nature is the subject of a suit at the common law or in equity.

POINT 2.

(a) On the proposition that an Order of the Administrative Board allegedly issued pursuant to an act of Congress, insofar as said act authorizes the issuance of such Order, is unconstitutional under the applicable decisions of this Court if such Order is retroactive.

The record here fully establishes that prior to September 30, 1942 the respondent The Timken-Detroit Axle Company, by the reports which it had rendered to petitioner Alma Motor Company, had manufactured and sold thousands of certain of the transfer cases which were held by the judgment of the District Court to be ones upon which Timken should have paid royalties to Alma and thousands of the T-79 transfer cases which were held by the District Court not to be dominated by any claim of the Ruggles and Smith patent (R. 103). Petitioner's appeal to the Third Circuit Court of Appeals was solely directed

to this latter holding of the District Court with respect specifically to the T-79 cases (R. 51, 52). As the judgment of the District Court (paragraph 6; R. 92) gave petitioner the right of recovery upon all transfer cases held by it to be dominated by the claims of the Ruggles and Smith patent and sold by Timken prior to the date of the judgment, November 30, 1942 (R. 49-51), the judgment clearly gave petitioner the right of a judgment creditor for recovery for all such transfer cases manufactured and sold by Timken prior to October 31, 1942, the date when Public Law 768 became law. Irrespective of the fact that petitioner's rights were those of a judgment creditor because of the fact that the court's opinion upon which the judgment was based was filed September 25, 1942, we submit, that any application of the provisions of Public Law 768, which would enable the law to reach back beyond the date of its passage to disturb contract rights of a party under a patent license contract and by means of which the licensor would have a *chose in action* against the licensee for devices made and sold prior to the passage of the Act would render the Act clearly retroactive and therefore "obnoxious to constitutional objection" (*Bradley v. Lightcap*, 195 U.S. at 19).

This court as far back as *Osborne v. Nicholson, supra*, fully considered the question of the great danger that would result if not only a mere legislative act, but an amendment to the Constitution of the United States could be made retroactive. The language of this Court in that case is so pertinent to the situation here presented that we feel we can do no better than quote it as follows:

> "But without considering at length the several assumptions of the proposition, it is a suffi-

cient answer to say that when the 13th Amendment to the Constitution of the United States was adopted, the rights of the plaintiff in this action had become legally and completely vested. Rights acquired by a deed, will or contract of marriage, or other contract executed according to the statutes subsequently repealed subsist afterwards, as they were before, in all respects as if the statutes were still in full force. This is a principle of universal jurisprudence. It is necessary to the repose and welfare of all communities. A different rule would shake the social fabric to its foundations and let in a flood tide of intolerable evils. It would be contrary to 'the general principles of law and reason', and to one of the most vital ends of government. The doctrines of the repeal of statutes and the destruction of vested rights by implication, are alike unfavored in the law. Neither is to be admitted unless the implication is so clear as to be equivalent to an explicit declaration. Every doubt should be resolved against a construction so fraught with mischiefs. There is nothing in the language of the amendment which in the slightest degree warrants the inference that those who framed or those who adopted it intended that such should be its effect. It is wholly silent upon the subject. The proposition, if carried out in this case, would, in effect, take away one man's property and give it to another. And the deprivation would be 'without due process of law'. This is forbidden by the fundamental principles of the social compact, and is beyond the sphere of the legislative authority both of the States and the Nation." 13 Wall. 654 at 662.

How apposite is this language of this Court to the situation here presented! There is no explicit declaration in the Act of October 31, 1942, "which in the slightest degree warrants the inference that those who framed or those

who adopted it intended" that it should effect contract rights which "had become legally and completely vested" prior to its passage.

This Court has uniformly held that retroactive legislation by Congress renders such legislation invalid as arbitrary and capricious.

Nichols v. Coolidge, supra;

Blodgett v. Holden, supra;

Untermeyer v. Anderson, supra.

It clearly indicated this in its decision in *Richmond Screw Anchor v. United States, supra.* This Court specifically held, when in construing the Act of 1910, as amended in 1918, that if the interpretation placed upon such Act by the Court of Claims in view of the provision of R. S. 3447 and which rendered the Act retroactive it would "raise a serious question as to the constitutionality of the Act of 1918 under the Fifth Amendment of the Federal Constitution" (275 U. S. at 331). We know of no case wherein this Court has ever held a retroactive act to be constitutional. Those recently decided cases of this Court cited by the Third Circuit Court of Appeals in its opinion (R. 117), *Yakus v. United States* (321 U. S. 414 (1944)), *Bowles v. Willingham* (321 U. S. 503 (1944)) and its own case, *United States v. City of Chester* (144 F. (2d) 415) (1944), as justifying such scope of governmental activity in the prosecution of the present war did not involve any question of retroactive or retrospective legislation.

(b) *On the proposition that Royalty Adjustment Order No. W-3 or Public Law 768 insofar as it authorized the issuance of such Order is unconstitutional as a violation of the prohibition of the Fifth Amendment with respect to due process of law when such order destroyed the rights of a party, under a private contract entered into long prior to the passage of the Act, to money which had become due and payable prior to the passage of the Act.*

This Court, in *Hepburn v. Griswold, supra,* in discussing the fundamental principles which prompted the adoption of the Bill of Rights amendments, held:

> "* * * Among these fundamental principles was this:
>
> 'And in the just preservation of rights and property it is understood and declared that no law ought ever to be made, or have force in the said territory, that shall in any manner whatever interfere with private contracts or engagements *bonafide* and without fraud previously formed'." (8 Wall. 623).

It also condemned as unconstitutional retrospective legislation in *Bradley v. Lightcap, supra; Osborne v. Nicholson, supra; Nichols v. Coolidge, supra; Blodgett v. Holden, supra,* and *Untermeyer v. Anderson, supra.* Although this court has held that contract rights acquired under a contract entered into prior to the passage of an act which rendered such contracts illegal and which may have been said to destroy contract rights previously entered into (see cases referred to by Third Circuit Court of Appeals in its opinion here: R. 118), those cases

were not ones which affected any right which had already accrued and had become vested prior to the passage of the Act but merely upheld the validity of the acts in question insofar as such acts denied a right of recovery under, or enforcement of, the contract as to rights accruing after the passage of the Act. We know of no case where this Court has ever held constitutional any legislative act which either expressly or impliedly was clearly retroactive when the question of the retroactive nature of the Act was squarely presented to the court.

(c) *On the proposition that the decision and judgment of a Federal District Court cannot constitutionally be set aside or invalidated by an Order of an Administrative Board and/or an Act of Congress, insofar as it authorized the issuance of such Order.*

The Third Circuit Court of Appeals, by its decision in this case and its explicit directions to the District Court "to proceed no further therein" and its authorization that the District Court "may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment, and dismiss the complaint as moot," has, to all intents and purposes ruled indirectly, if not directly, that Royalty Adjustment Order No. W-3 of an Administrative Board of the Executive Department supersedes, supplants and renders unenforceable and nugatory the judgment of the Federal District Court in this case, which held that

> "• • • plaintiff (respondent Timken) should have paid to defendant royalties in accordance with the license agreement • • •" (R. 92).

The preparation of the formal judgment which was not formally filed in the District Court until December 2, 1942, was a mere carrying into effect of the conclusions reached by the District Court in its opinion filed September 23, 1942. As far as the rights of the parties were concerned, they were settled on September 23, 1942, by the filing of the Court's opinion. The date of December 2nd, 1942, when the judgment was filed, is important only as establishing the date when the time would toll for the filing of an appeal from the decision of the District Court to the Third Circuit Court of Appeals.

Nothing could be more firmly established under the law and the applicable decisions of this Court than as stated by this Court:

> "* * * inasmuch as the judgment in the trial court was rendered, as we have seen, prior to the repealing act * * * the right acquired by the judgment creditor was not and could not constitutionally be taken away." *McCullough v. Virginia*, 172 U. S. 102, at 125.

We cannot conceive of any question that could be of greater and more far-reaching public importance than that an Order of a mere Administrative Board could be more authoritative than the judgment of a Federal Court duly rendered in a case over which the jurisdiction of the Court has been fully and properly acquired and which jurisdiction depends directly upon the explicit provisions of Article III of the Federal Constitution. To hold that such jurisdiction of the Federal judiciary may be ousted by the Order of a mere Administrative Board is to hold that the independence of the Federal judiciary, fully established by the Constitution and so jealously safeguarded by the courts during the years, is a mere myth and that Congress may at any time under the guise of the exercise

of its war powers and under the excuse of a purely suppositious and non-existent necessity render the language of the Constitution "that the judicial power shall extend to all cases in law and equity arising under this Constitution, the laws of the United States • • •—between citizens of different states—• • •" entirely meaningless.

Chief Justice Marshall, in the famous case of *Marbury v. Madison*, 1 *Cranch* 137, rejected this proposition in the most uncertain terms, stating:

> "Those, then, who controvert the principle that the Constitution is to be considered, in court, as a paramount law, are reduced to the necessity of maintaining that courts must close their eyes on the Constitution, and see only the law.
>
> "This doctrine would subvert the very foundation of all written constitutions. It would declare that an act which, according to the principles and theory of our government, is entirely void, is yet, in practice, completely obligatory. It would declare that if the legislature shall do what is expressly forbidden, such act, notwithstanding the express prohibition, is in reality effectual. It would be giving to the legislature a practical and real omnipotence, with the same breath which professes to restrict their powers within narrow limits. It is prescribing limits, and declaring that those limits may be passed at pleasure.
>
> "• • • Could it be the intention of those who gave this power, to say that in using it the Constitution should not be looked into? That a case arising under the Constitution should be decided without examining the instrument under which it arises?
>
> "This is too extravagant to be maintained." 1 *Cranch* 137, at 178.

POINT 3.

(a) *On the proposition that the Federal right of eminent domain cannot be constitutionally exercised under the war powers of Congress to justify the sequestration of the Government not of physical private property but of mere money due from one private person to another private person under a purely civil contract entered into long prior to the passage of the Act and judicially determined to be due and payable prior to the passage of such Act.*

We have already shown that the contract entered into between petitioner Alma and respondent Timken was entered into long prior to the passage of the Act, and that also prior thereto, the Federal District Court for the District of Delaware had ruled "that the money due as royalties under the contract should have been paid by Timken to Alma." The Third Circuit Court of Appeals in its opinion seems carefully to have avoided the very important question that all Royalty Adjustment Order No. W-3 and/or Public Law 768 authorized was the taking or sequestration of mere money for, totally ignoring the fact that all that was involved,—was money due under a private contract,—it held "what we have here is a taking of private property for public use" (R. 116).

In support of its statement "no one doubts, of course, the power of the Government to take private property for public use," it cited *North Laramie Land Co. v. Hoffman*, 268 U. S. 276; *Joslin Co. v. Providence*, 262 U. S. 668,

and *Bragg v. Weaver*, 251 U. S. 57. We submit that as a matter of pure common sense, let alone a doctrine of law, the taking of money from one individual can never, except in a most exceptional and extraordinary circumstance or emergency, constitute the taking of private property for public use.

Insofar as this case is concerned, there is nothing to show that the money involved would or could ever be put to public use. The circumstances augur otherwise because the money is directed to be paid into the Treasury to be held, we assume, in escrow. There is nothing in the provisions of Public Law 768 or Order W-3 that indicate that the money is to be used for any specific public purpose, let alone for a war purpose. This is a question that has never been directly ruled upon by this Court, as far as we have been able to ascertain. The decision of the Third Circuit Court of Appeals in this respect, however, is directly contra the entire weight of authority as enunciated by the foremost authorities and by the decisions of competent courts.

Cooley's Constitutional Limitations, 8th Ed., Vol. 2,1113;

People v. Mayor, etc., of Brooklyn, 4 N. Y. 419, 424-5;

Burnett v. Mayor etc. of the City of Sacramento, 12 Cal. 76, 83;

Emery v. San Francisco Gas Co., 28 Cal. 345, 350;

Hammett v. Philadelphia, 65 Pa. 146, 152-153;

Cary Library v. Bliss, 151 Mass. 364, 379.

(b) *On the proposition that the Federal right of eminent domain may not be constitutionally exercised in the absence of any finding in the particular case of necessity for the taking.*

Many years ago this Court by Chief Justice Taney in dealing with the exercise of the right of eminent domain, held:

> "It is the emergency that gives the right and the emergency must be shown to exist before the taking can be justified." *Mitchell v. Harmony*, 13 How. 115.

Mitchell v. Harmony is still the law, as it has never been over-ruled. The rule of law above enunciated has been consistently followed in all cases involving the exercise of the right of eminent domain and that in all such cases there must be a determination or a finding of a public necessity by some competent body in each particular case. The Third Circuit Court of Appeals, we submit, completely missed the point in its ruling that "The necessity for the taking in a particular instance is for the legislative body, not the courts, assuming that the purpose is one for which the power might be exercised." Citing *North Laramie Land Co. v. Hoffman*, 268 U. S. 276; *Joslin Co. v. Providence*, 262 U. S. 668; *Bragg v. Weaver*, 251 U. S. 57 (R. 117).

In the cases cited, the legislative Act involved had to do with a carrying into effect a certain public purpose in connection with which the specific property involved

in the litigation was essential in order that the purpose could be carried out. This is not so in the case at bar because Public Law 768 is of such wide and general effect. The only purpose enunciated in the Act is that it is "to aid in the successful prosecution of the war." There is nothing whatsoever in the Act to indicate, direct or allocate any purpose for which the money is to be used and of which the Act authorizes the sequestration. There was no finding by the Royalty Adjustment Board that showed in the slightest degree any public necessity for authorizing the non-payment by Timken to Alma of the nominal, radically low, and clearly reasonable, meager royalty of ½ of 1%.

(c) ***On the proposition that the Federal right of eminent domain cannot be constitutionally exercised under Royalty Adjustment Order W-3 or under Public Law 768 to sequester money due under a private contract in the absence of any finding, or record showing, that the money so sequestered had ever been charged, or was chargeable to, the United States, and***

(d) ***Despite a direct showing and averment in the record to the contrary.***

We have already discussed the proposition that the sequestration of mere money under the guise of the exercise of the right of eminent domain is without precedent and contrary to the weight of authority. In the instant

case, however, the opinion of the Third Circuit Court of Appeals goes much farther than flouting all precedent and being contra the weight of authority for it is in flagrant disregard of the specific provisions of Public Law 768.

In the instant case petitioner, by its petition to the Third Circuit Court of Appeals to review and vacate Royalty Adjustment Order No. W-3 (R. 98-110) and by its petition for rehearing (R. 122-129), specifically directed the attention of the Third Circuit Court of Appeals to the fact that Sec. 7 of Public Law 768 states

> "Sec. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment or materials to be delivered to or for the Government from and after the effective date of the notice provided for in Section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in Section 1 hereof."

The Government, in its briefs and arguments in the court below, urged the validity of Public Law 768, by referring to the Court of Claims Act of 1910, and the amendment thereto by the Act of 1918, as being the "prototypes" of Public Law 768. The Third Circuit Court of Appeals apparently was swayed by these arguments for the opinion of the court shows clearly that it relied heavily upon the decisions of this Court in interpreting the Act of 1910 (R. 113-116; R. 119-120). We wish to direct the attention of the Court most forcibly to the fact that the

framers of the Act of June 25, 1910 were most careful to include therein a direct provision that the Act should not be retroactive, for the Act provided

> "The Court of Claims shall not entertain a suit or award compensation under the provisions of this section where the claim for compensation is based on the use or manufacture by or for the United States of any article owned, leased, used by, or in the possession of the United States *prior to June 25, 1910.*" (35 U.S.C.A. Sec. 68, p. 370). (Emphasis ours.)

The same is also true with respect to the Act of July 1, 1918, amending the 1910 Act. The Act of July 1, 1918, contains the following specific provision:

> "*Provided, however,* that said Court of Claims shall not entertain a suit or award compensation under the provision of this section where the claim for compensation is based on the use or manufacture by or for the United States of any article *heretofore* owned, leased, used by, or in the possession of the United States." (35 U.S.C.A., Sec. 68; see 1943 Cumulative Annual Pocket Part, p. 95; 40 Stat. 705.) (Emphasis ours.)

The proceedings before the committee and also in Congress show that there is no discussion with respect to the second sentence of Sec. 7 of Public Law 768 which we have quoted above. Had this sentence been given due consideration by the framers or by the Congress it would have been a very simple matter to have drafted the sentence so that it would read:

> This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials delivered *after October 31, 1942*, to or for the Govern-

> ment *and upon* which royalties have not been paid to the licensor prior to the effective date of the notice provided for in Section 1 hereof. (Italics added.)

The act, therefore, by its terms is clearly open to attack as to its constitutional validity as being retroactive. The opinion of the Court of Appeals by its utter failure to discuss the provisions of the second sentence of Section 7 of the Act indicates that the court did not give due consideration to this sentence. Had the court given proper consideration to the provision of this sentence, we respectfully submit the court could have held the Act to be constitutional if limited only to such supplies, equipment, or materials as had been delivered to the Government after October 31, 1942.

We submit, however, that the paramount issue to which a court of competent jurisdiction should first direct its attention when the validity of an Order of an Administrative Board, allegedly issued pursuant to a public act is attacked, should be that of considering whether or not the Act authorizes the issuance of the order attacked.

In this connection we direct the attention of the Court to the fact that the affidavit of John E. Gallagher (R. 60, 61) filed by respondent in support of its motion to dismiss petitioner's appeal categorically stated that the records of The Timken-Detroit Axle Company:

> . . . . *show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of Ruggles and Smith Patent 2,173,044, have been manufactured and sold directly or*

> *indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Co.;* • • •"

Apparently the Court of Appeals either refused to consider, or failed to appreciate, the significance of the latter part of this statement made under oath by Mr. Gallagher. Apparently, also, the Court was satisfied to rely upon the fact (in view of statements made by Mr. Strauch, counsel for Timken, at the hearings in open court) that all of the transfer cases in question were manufactured and sold directly or indirectly to the United States (R. 113). The Court obviously disregarded not only the statement in the Gallagher affidavit to the effect that no royalties had ever been charged prior to August 17, 1943, the date of the Gallagher affidavit, on all the transfer cases, as to which the District Court's judgment held the royalties were due and payable, and also on all of the T-79 transfer cases involved in petitioner's appeal, but also disregarded the specific provision of Section 7 Public Law 768, that the Act should apply *to royalties which were charged or chargeable to the United States.*

In this connection we also direct this Court's attention to the fact that the Third Circuit Court of Appeals failed to give due cognizance to the provisions of paragraph 4 of Royalty Adjustment Order No. W-3, reading as follows:

> "(4) that licensee is hereby directed to reduce the contract price of all supplies, equipment or materials, or parts thereof, which have been delivered or are to be delivered by licensee to or for the War Department or to any contractor or sub-contractor for the War Department *but for which licensee has not on the date of this order received payment.* • • • " (R. 95) (Emphasis ours.)

We submit that nothing could be more implicit than that, by the very terms of Royalty Adjustment Order No. W-3, all transfer cases for which the licensee (the respondent Timken) had received payment from the War Department prior to July 28, 1943, the date of the Order, were clearly eliminated from the purview of such Order.

We suggest that the Royalty Adjustment Board, which issued the Order, was derelict in its duty, as it apparently made no investigation to determine whether or not any royalty had ever been charged to the Government on all the transfer cases covered by Order W-3, manufactured and sold by Timken for use directly or indirectly by the Government. We submit, therefore, that the record in this case fails to show the existence of the prime requisite, condition precedent, only upon the presence of which, the Royalty Adjustment Board have been justified in issuing the Order. We assert that, however, in view of the categorical averments above quoted from the Gallagher affidavit, the record clearly indicates an entire absence of the condition precedent and that Public Law 768 does not authorize Royalty Adjustment Order W-3 which by its terms prevents payment by Timken to Alma of royalties never charged by Timken to the Government.

(e) ***On the proposition that the Federal right of eminent domain may not constitutionally be exercised to authorize the private enrichment of a judgment debtor at the expense of a judgment creditor by ordering such debtor not to pay money adjudged by a Federal District Court to be due and payable as patent royalties, when such royalties were never charged to or paid by the United States and therefore there was and could be no public interest in such money.***

We have already thoroughly discussed the facts pertinent to this point. Obviously, if the royalties due Alma by Timken under the license agreement had never been charged to the Government, there could be no basis or reason for any reduction of a contract price by the licensee Timken to the Government under the above quoted paragraph 4 of Royalty Adjustment Order No. W-3. Likewise nothing could be more crystal-clear that there could be no public interest in the moneys due Alma by Timken as royalties if such royalties had never been charged to the Government. We submit it to be a thoroughly foregone conclusion, that Timken, by July 28, 1943, had already received full payment for the many thousands of transfer cases sold by Timken, during the years 1940, 1941 and 1942 (see Schenck affidavit, R. 105).

There can be no question but that the Timken Company made a very appreciable profit on all of these thousands of cases and we submit that the people of the United States and the United States Government obtained more than value received when it purchased the transfer cases

embodying the Ruggles and Smith improvements and invention which the District Court found as a fact to be "simple and comparatively inexpensive means;" "the mechanism is simple, practical and substantial;" "very simple, practical and inexpensive driving mechanism." (Fact Finding 12, R. 44).

We suggest that when Timken elected not to charge royalty to the Government on "all the transfer cases held to be infringements or now alleged to be infringements" (R. 60), apparently in the mistaken belief that, even though a licensee, it could successfully attack the validity of the patent or, in the equally mistaken hope, that it could succeed in having such transfer cases held not to be dominated by the claims of the patent, it did so of its own volition and with its eyes wide open and it, and it alone, assumed the full responsibility and the full liability for payment of royalties held by the District Court to be due and payable by it to petitioner Alma.

We further submit that, in view of the foregoing, nothing could be clearer from the record than that the taking authorized by Royalty Adjustment Order No. W-3 is not "* * * a taking of private property for public use" (R. 116) as held by the Third Circuit Court of Appeals. Instead the taking is, in effect, the taking of the type condemned in *Osborne v. Nicholson, supra*, to which the following language from such case applies most pertinently:

> "* * * the proposition, if carried out in this case, would, in effect, take away one man's property and give it to another * * *" (13 Wall. 663.)

POINT 4.

On the proposition that the Act of October 31, 1942 (Public Law 768) is unconstitutional and violative of the provisions of Article III, Sections 1 and 2 of the Constitution; and, Royalty Adjustment Order No. W-3, allegedly issued pursuant to such Act, is unconstitutional if, as held by the Third Circuit Court of Appeals, it destroys the right of a judgment creditor to proceed with pending litigation in constitutional Federal Courts against the judgment debtor and relegates the creditor to the institution of a new suit against a different defendant, namely the Government, in a different tribunal, the Legislative Court of Claims, and authorizes a defense by the Government to a contractual obligation which defense was non-existent at law to the debtor prior to the passage of the Act.

The situation with respect to this proposition is indeed unique. We know of no case wherein a judgment which, in effect, was rendered prior to the passage of the legislative Act was permitted to be set aside by the provisions of such Act. We have already discussed this broad general proposition under Point 1 of this brief (pp. 27-30), and have shown that the Act of the Third Circuit Court of Appeals in permitting its jurisdiction to be ousted by Royalty Adjustment Order No. W-3 and the judgment of the District Court nullified thereby is directly contra the decisions of this Court in *Smith v. McIver, supra; Sperry Gyroscope v. Arma Engineering Co., supra; McCullough v. Virginia, supra; Hodges v. Snyder, supra,* and *Murray's Lessee, et al., v. Hoboken Land Imp. Co., supra.*

The situation here is somewhat analogous to that before this Court in the case of *Lynch v. United States, supra*, wherein the Court, in considering life insurance policies issued by the Government during the last war, had before it the question of necessity of the legislation from the standpoint of national interests, but held the provision of the Fifth Amendment to be paramount to the temporary public interest. The Court held *inter alia* as follows:

> "Second. *The Fifth Amendment commands that property be not taken without making just compensation.* Valid contracts are property, whether the obligor be a private individual, a municipality, a State or the United States. Rights against the United States arising out of a contract with it are protected by the Fifth Amendment. *United States v. Central Pacific R. Co.*, 118 U. S. 235, 238; *United States v. Northern Pacific Ry. Co.*, 256 U. S. 51, 64, 67. *When the United States enters into contract relations, its rights and duties therein are governed generally by the law applicable to contracts between private individuals.*" 292 U. S. 571 at 579.
>
> * * * * *
>
> "Third. Contracts between individuals or corporations are impaired within the meaning of the Constitution whenever the right to enforce them by legal process is taken away or materially lessened." 292 U. S. 571 at 580-1.
>
> * * * * *
>
> "Fourth. The question requiring decision is, therefore, whether in repealing 'all laws granting or pertaining to yearly renewable term insurance' Congress aimed at the right or merely at the remedy. It seems clear that it intended to take away the right; and that Congress did not intend to preserve the right and merely withdraw consent to sue the United States." 292 U. S. 571 at 583.

The situation, however, in the present case is much more flagrant than that in the *Lynch* case because here, as

we have already fully pointed out, the impairment of the contract which inevitably occurred as the result of the issuance of Royalty Adjustment Order No. W-3, could not and did not redound to the enrichment of the Government or add any money to the public treasury but resulted solely in the private enrichment of the respondent Timken at the expense of petitioner Alma. We quote the following most pertinent language to the situation in this case enunciated by this Court:

> "It is also the settled doctrine of this Court, that the laws which subsist at the time and place of making a contract enter into and form a part of it, as if they were expressly referred to or incorporated in its terms. This rule embraces alike those which affect its validity, construction, discharge, and enforcement. *Von Hoffman v. City of Quincy, supra; McCracken v. Hayward,* 2 How. 508."
>
> *Edwards v. Kearzey,* 96 U. S. 595 at 601.

POINT 5.

(a) ***On the proposition that the power to hold a duly issued United States Letters Patent invalid cannot, under the provisions of Article III, Sections 1 and 2, and Article IV, Paragraph 2 of the Constitution of the United States, constitutionally be exercised by an Administrative Board of the Executive Department.***

Although Royalty Adjustment Order No. W-3 does not by its terms hold the Ruggles and Smith patent 2,173,044 invalid, the Order holding a "fair and just royalty to be $0.00" (R. 96) is shown by the transcript of the February 8, 1943, proceedings of the Royalty Adjustment Board (R. 61-86) in reality to be a holding of invalidity. The proceedings (R. 73) further show that the holding of invalidity was based upon a preconceived opinion of the Chief of Ordnance (R. 73). The fact that the Royalty Adjustment Order was a holding of invalidity is further corroborated by the averments in the Gallagher affidavit (R. 60, 61). Moreover the statements in the Gallagher affidavit unqualifiedly aver " * * * that the War Department's assertions of invalidity of Ruggles et al. patent 2,173,044 and the issuance of said Order is based on the art of record in this litigation; * * *." This Court is therefore confronted with the situation of an Order of a mere Administrative Board of the Executive Department overruling and reversing the judgment of a Federal District Court. One can study Public Law 768 with the greatest diligence without finding anything in the Act which shows any intention of the Congress to confer any such wide-sweeping powers on an Administrative Board of the Executive Department.

This Court has had submitted to it the question as to whether or not an executive branch of the Government has power under the Constitution to declare a duly issued United States Letters Patent invalid. This Court considered this question carefully in *McCormick Harvesting Machine Co. v. Aultman, supra*, and held therein

> "* * * that when a patent has received the signature of the Secretary of the Interior, countersigned by the Commissioner of Patents, and has had affixed to it the seal of the Patent office * * * it is not subject to be revoked or canceled by the President or any other officer of the Government." (169 U. S. at 608.)
>
> * * * * * *
>
> "The only authority competent to set a patent aside or to annul it or to correct it for any reason whatever is vested in the courts of the United States * * *" (169 U. S. at 609).

Indeed in the *McCormick* case the Court went even further in discussing the action of the Examiner in the Patent Office in rejecting the claims which had been previously allowed in an original patent for which an application for reissue had been made and said

> "His opinion thereon was but his personal opinion, and however persuasive it might be, did not oust the jurisdiction of any Court to which the owner might apply for an adjudication of his rights, * * *" (169 U. S. 611, 612).

There, the Court was dealing with the action of an Examiner in the Patent Office, assumed to be an expert in the art and in the interpretation of patents; there, this Court ruled that opinion of the Examiner did not oust the jurisdiction of any Court to which the owner might *in the future* apply for an adjudication of his rights; here, we

have the spectacle of a Royalty Adjustment Order issued by an Administrative Board of the Executive Department being given such wide-sweeping effect as to not only oust the vested jurisdiction of the Third Circuit Court of Appeals, but to completely nullify and abrogate the *judgment*, which had become final, of the United States District Court for the District of Delaware. And the Royalty Adjustment Order being based merely upon the personal opinion of the Chief of Ordnance, upon whom, as far as we know, no jurisdiction over patents has ever been conferred by statute.

(b) ***On the proposition that the Order of an Administrative Board of the Executive Department cannot be constitutional under the Fifth Amendment when such Order constitutes a usurpation of a judicial prerogative. and***

(c) ***When such Order was issued as a result of a hearing, notice of which did not correspond to the subject matter examined into at such hearing, and no evidence was introduced at the hearing bearing upon the question of invalidity.***

We believe we have fully discussed in the preceding point the proposition that, as repeatedly held by this Court, the only authority competent to set aside a patent is vested in the Courts of the United States. We believe, under the decisions of this Court, that the action of the Royalty Adjustment Board, in holding the Ruggles and Smith patent invalid, was a clear usurpation of a purely judicial prerogative by such Board. The record shows that the notice of hearing (see Exhibit H, R. 109-110) to

be held February 8, 1943, indicated clearly that the hearing was to be for the purpose of examining into whether or not the royalties being paid under the Ruggles and Smith patent 2,173,044 were unreasonable or excessive. It did not, in the slightest degree, contain any intimation that the hearing was to be directed solely to the question of the validity of the patent. The transcript of the proceedings shows that the hearing in fact was directed solely to the question of invalidity. The transcript further shows that no evidence was introduced at the hearing; that the officers of the Ordnance Department, Major Wayne L. Cockrell and Lieutenant Colonel C. E. Herrstrom, came to the hearing fully advised that "the opinion of the Chief of Ordnance is that the patent is invalid" (R. 73); that when counsel for Alma raised the point that if the Board was going into the question of the validity of the patent it should be by the presentation of full evidence, the presiding officer of the Board, Major Cockrell, stated: "It is not proposed that there shall be any argument in this proceeding at all" (R. 73).

The Third Circuit Court of Appeals, in ruling upon the proposition now under discussion, stated:

> "* * * We think that the complaint in this respect misconceives both the nature of the hearing and the order which resulted therefrom. The hearing provided for is not in the nature of a complaint before a regulatory agency, but, instead gives an opportunity for possible amicable adjustment between the Government agency and the patent owner. But the result does not bind the patent owner. By the express terms of the statute he is entitled to sue for what he believes himself to be entitled and the conclusions of the administrative officer are in no way binding upon him or the Court. Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it. The

> insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right and when its results are not binding upon the patent owner if he later seeks compensation through court action" (R. 119).

The action of the Court of Appeals, however, in refusing to hear petitioner's appeal on the merits, ordering the District Court to vacate paragraph 5 of its judgment and authorizing the District Court "to vacate all or any part of the remainder of the judgment and dismiss the complaint as moot" (R. 121) belies the statement of the Court in its opinion that "the result does not bind the patent owner." Petitioner, Alma, long prior to the issuance of the Royalty Adjustment Order No. W-3 acquired a final judgment as to "all or any part of the remainder of the judgment of the District Court." The action of the Court in issuing its Order above referred to also belies the statement of the Court that "the conclusions of the administrative officer are in no way binding upon him or the Court" (R. 119). The Third Circuit Court of Appeals by its Order to the District Court accepted Royalty Adjustment Order No. W-3 to be so sufficiently binding upon it as to completely oust its jurisdiction to hear petitioner's appeal on the merits. It went even further in authorizing the District Court to vacate all or any part of the remainder of the judgment of that Court which had become final because of respondent's failure to appeal within the statutory time limit of appeal. How can it therefore be said the Order does not bind the patent owner when petitioner is tied hand and foot and prevented from proceeding to press its final judgment to execution? In view of the force and effect given by the

Third Circuit Court of Appeals to Royalty Adjustment Order No. W-3, the Order has greater force than the judgment of the District Court. We therefore submit the following language of this Court is directly in point where in discussing the necessity for full compliance between notice and hearing this Court stated:

> "'The judgments mentioned, given in the cases supposed, would not be merely erroneous; they would be absolutely void; because the Court in rendering them would transcend the limits of its authority in those cases.' *Windsor v. McVeigh*, 93 U. S. 274, 282. See also *Reynolds v. Stockton*, 140 U. S. 254, 265-268. *Barnes v. Railway*, 122 U. S. 1, 14."

Standard Oil Co. of Indiana v. Missouri, 224 U. S. 270 at 282. See also *Powell v. Alabama, supra*, and *Hagar v. Reclamation District, supra*.

The Third Circuit Court of Appeals by its opinion also held that

> "The provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation. *Crozier v. Krupp*, 224 U.S. 290 (1911); *Identification Devices v. United States*, 121 F. (2d) 895 (App. D.C. 1941), cert den. 314 U.S. 615 (1941), 314 U.S. 587 (1942), reh. den. 314 U.S. 710, 714 (1941), 315 U.S. 779 (1942); *Pierce v. Submarine Signal Co.*, 25 F. Supp. 862 (D. C. Mass. 1939). This in itself would be enough to uphold the constitutionality of a statute upon this point. The constitutionality is not impaired by a provision for a conference or hearing prior to court action which, if satisfactory, amicably adjusts that which otherwise would take litigation to settle. Our conclusion is that the statute is a constitutional exercise of the power of eminent do-

main by Congress in aid of its expressly granted war power. It simply goes the one step further to cover the exercise of that power in the field of patents, which had already been made by the Act of 1910, as amended. The provision of the law for compensation to the owner is within the constitutional requirement of due process of law." (R. 119-120).

The cases cited in the above quoted part of the court's opinion all had to do with the interpretation of the Court of Claims Act of 1910 as amended by the Act of 1918. No one of these cases had anything to do with the "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120). They had to do solely with the exercise of the power of Congress under the patent clause.

The Act of 1910 specifically by its title was enacted "to provide additional protection for owners of patents," *Sperry v. Arma* (271 U.S. at 234). The 1918 amendment to the Act of 1910, as it was an amendment to the 1910 Act, was therefore also for the purpose of providing additional protection for the owners of patents. How anomalous it is to state that the provision for recovery of compensation is sufficient compliance with the constitutional provision for just compensation, and to rely upon the decisions interpreting the Court of Claims Act of 1910 as amended, as an argument or authority for the constitutionality of Public Law 768 which, so clearly does not provide additional protection for patent owners, but renders such protection most precarious and capable of being vitiated upon the mere whim or opinion of an executive officer of the Government! How can it be said that Public

Law 768 constitutes due process of law when a Royalty Adjustment Order issued under it is held to oust the jurisdiction of the Federal Court of Appeals and render the judgment creditor helpless to enforce a final judgment rendered by a Federal District Court against his judgment debtor?

How can the Act be held to constitute due process of law when it relegates petitioner to the starting of an entirely new suit, covering subject matter already fully litigated in the Federal constitutional courts, in the Court of Claims against a different defendant, the United States Government, and gives the Government a new defense not open to the judgment debtor to raise? How can it be called due process of law to prevent petitioner from recovering the money, held by the District Court to be due and payable, and to compel petitioner to start a new suit in the Court of Claims, when petitioner in such suit would be unable to show jurisdiction of the court over the subject matter, because in the present state of the record the monies which the District Court held to be due and payable to petitioner were never charged to the United States and are not now chargeable to the United States and have never been paid by the United States? Surely in such a state of affairs, petitioner could not allege in a complaint filed in the Court of Claims that the Government is withholding any money which is the property of the petitioner.

The Order of the Third Circuit Court of Appeals further deprives petitioner of its property in violation of the prohibition of the Fifth Amendment and if paragraph 5 of the judgment of the District Court is vacated and if the District Court acts upon the authorization of the Third Cir-

cuit Court of Appeals and vacates all or any part of the remainder of the judgment and dismisses the complaint as moot, the entire subject matter which was thoroughly litigated and in the main decided favorably to petitioner, would then become entirely undecided and the judgment of the District Court would not be *res judicata* as to either petitioner or respondent.

(d) and (e) ***On the proposition that the Order of an Administrative Board of the Executive Department does not constitute due process of law under the Fifth Amendment when the transcript of the proceedings of the hearing, as a result of which such Order was issued, shows that the holding of invalidity was based upon a mere opinion of an Executive Officer and that no finding was made by such Board nor evidence introduced at such hearing upon which the opinion of invalidity was based.***

As we have already thoroughly discussed, the transcript of the proceedings of February 8, 1943, shows that the holding of invalidity was based upon the mere opinion of an executive officer, namely the Chief of Ordnance of the War Department of the United States. The record here shows that the Board made no fact finding upon which the holding of invalidity of Royalty Adjustment Order No. W-3, was based. This Court in considering a somewhat similar situation held that a fraud order of the Postmaster General was not authorized except in cases where there was evidence to support the order, or in other words, something more than the individual opinion

of the Postmaster General. *American School of Magnetic Healing v. McAnnulty, supra.*

A mere, even cursory, examination of the transcript of the proceedings of the hearing of February 8, 1943, by the Royalty Adjustment Board which issued Order No. W-3, shows that no evidence whatsoever was introduced at the hearing, but that all of the contentions of invalidity of the Ruggles and Smith patent were mere argument of counsel. Nothing appears in the record except the statement in the Gallagher affidavit to show upon what the holding of invalidity of the Board was based. The Royalty Adjustment Order is utterly barren of any finding which in the slightest degree supports the tacit holding of invalidity. Nor is there any indication of any of the evidence which may, or may not have been considered by the Chief of Ordnance when he reached the opinion, prior to the hearing, that the Ruggles and Smith patent is invalid.

CONCLUSION

On the foregoing argument, it is submitted that the Circuit Court of Appeals was in error in the several respects covered by the petition and brief; that its errors are in matters of wide and general importance; that it has departed from the authoritative rules of law prescribed by this Court; and that its judgment is entirely erroneous.

Wherefore your petitioner prays that its petition be granted; that the writ of certiorari be issued and the cause reviewed; that the decree of the Circuit Court of Appeals for the Third Circuit be reversed; that such Court be directed to hear petitioner's appeal on its merits; and that the District Court be directed to proceed with the necessary steps to carry into effect that part of its judgment which became final.

Respectfully submitted,

F. Joseph Farley,
Attorney for Petitioner.

FILE COPY

No. 806

IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

ALMA MOTOR COMPANY,

Petitioner,

vs.

THE TIMKEN-DETROIT AXLE COMPANY,

Respondent,

UNITED STATES OF AMERICA,

Intervenor.

BRIEF FOR PETITIONER

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

No. 806

ALMA MOTOR COMPANY,

Petitioner.

vs.

THE TIMKEN-DETROIT AXLE COMPANY,

Respondent.

UNITED STATES OF AMERICA.

Intervenor.

BRIEF FOR PETITIONER

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1. OPINIONS BELOW.

This case comes before this Court by reason of the granting of the writ of certiorari to review a decision, as amended on denial of rehearing of the Third Circuit Court of Appeals in the case of *Alma Motor Company*,

Appellant, vs. The Timken-Detroit Axle Company, Appellee, and *The United States of America, Intervenor* (R. 112-120) reported at 144 F. 2d. 714, which case was an appeal from the District Court of Delaware from a decision in the case of *The Timken-Detroit Axle Company, Plaintiff, vs. Alma Motor Company, Defendant* (R. 33-45) reported at 47 Fed. Sup. 582.

2. JURISDICTION

(1) This is a suit arising under the Declaratory Judgment Act, Judicial Code, Sec. 274-d (28 U. S. C. A. 400) (R. 2, 8), and under the patent laws of the United States, Judicial Code, Sec. 24 (Par. 1 and 7) (28 U. S. C. A. 41, Par. 1 and 7) (R. 8).

(2) The jurisdiction of this Court is invoked under Sec. 240(a) of the Judicial Code as amended by the act of February 13, 1925 (28 U. S. C. A. 347).

(3) The date of the Judgment which petitioner seeks to have reviewed is October 2, 1944.

(4) The writ of certiorari was granted by this Court February 5, 1945.

3. STATEMENT OF THE CASE

(a) The Contract and Its Inducement

This case stems primarily from a contract entered into between petitioner, Alma Motor Company, and respondent, The Timken-Detroit Axle Company, entered into in May, 1938, under the terms of which Alma licensed Timken under a certain United States Letters Patent 2,173,044 issued to Ruggles and Smith, September 12, 1939.

As the facts leading up to the execution of the contract and the major provisions of the said contract were very succinctly and impartially discussed in the opinion of the District Court for the District of Delaware, we feel we can do no better than quote from the opinion as follows:

> "In this action the plaintiff, under the Declaratory Judgment Act, asks the Court to determine certain questions of law and fact, arising in connection with the defendant's patent No. 2,173,044 (issued to Ruggles and Smith September 12, 1939) and an agreement by which the plaintiff became a licensee. The patent is for mechanism known as a transfer case—an auxiliary transmission by which the drive of the engine of an automobile truck may be extended to the front axle as well as to the rear. In substance, the relief asked for is that the Court declare that the patent is invalid, that the transfer cases manufactured by the plaintiff do not come within its claims as construed in the light of the prior art, and that, under the license agreement, or, in spite of it, the plaintiff is not bound to pay royalties upon any of the transfer cases now being

manufactured by it. The defendant has counterclaimed asking judgment for damages for the plaintiff's failure to pay royalties.

"In the early part of 1938, the plaintiff, Timken, the defendant, Alma, and a third company, Harrington, were in interference, each with a patent application for a transfer case. The three devices were essentially the same and [fol. 45] there were 15 counts in the interference. After some preliminary sparring in the Patent Office, there was a meeting between representatives of the three parties at the Book-Cadillac Hotel in Detroit in May, 1938, at which it was agreed that Alma should have the patent and would license the other two when it issued. There are some indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating. After the conference, Timken and Harrington formally conceded priority to Alma, Alma disclaimed certain counts of the interference which the parties had agreed were anticipated by prior art which had been produced and studied at the conference, and Alma and Timken executed the license agreement in question, Harrington dropping out because it had come to the conclusion that it did not want to manufacture the cases.

"There were actually two contract documents executed, the first on May 16, 1938, and the second on May 26, 1938, but I think they may be considered together as though they were a single license agreement. The second embodied the essential terms of the first, and the parties are apparently in agreement that the recitals in the earlier document should be considered in determining the scope and construction of the later one.

"The first question is whether or not Timken is estopped to contest the validity of the patent. I am of the opinion that it is estopped to raise that issue,

and therefore will not adjudicate the patent in this proceeding.

"The rule that a licensee may not contest the validity of the patent under which he is licensed is well settled and has long been a part of the patent law. In this case Timken endeavors to avail itself of several avenues of escape from the estoppel.

"First, Timken contends that this license, by its terms as interpreted in the light of the recitals, intends that the licensee shall be free to contest the patent. I do not so read the agreement. The contention is based on the first [fol. 46] recital of the agreement of May 16 and on Clause IV of the second document which is practically identical with Clause VI of the first document.

"The recital, of course, was intended to define the subject matter. It is a statement that Ruggles and Smith have invented certain improvements, which improvements are further described as transfer cases and identified as the ones disclosed in the Ruggles and Smith application then pending. Then Alma licenses Timken to make, etc. 'the said improvements' and Timken agrees to pay royalties upon transfer cases 'embodying said improvements.' Then there is a clause the meaning of which is that, after the issuance of the patent, the royalties shall be paid only if any of the claims dominate the transfer cases made by Timken. I think it perfectly plain that the intention was to pay royalties on transfer cases coming within the terms of the claims of the patent as issued. I do not think that the incidental use of the word 'invented' meant that it was intended the licensee was to be free to contend that his obligation to pay royalties was not coextensive with the issued patent as defined by its claims. Five patent lawyers participated in the conference, and at least two in drawing the agreement. They understood the rule that estops a licensee and

certainly would have provided against it in plainer terms than these had that been the intention of the parties. But even if it were possible, by emphasis upon the word 'invented,' to whittle down the scope of the license to something less than the patent, I should say that the recital estopped Timken to deny that Ruggles and Smith had invented the improvements just as much as the license estops it to contest the validity of the patent.

"The assertion in Timken's brief that Alma represented that Ruggles and Smith invented the improvements in question is not entirely correct. Actually, it was as much Timken's assertion as Alma's. Both parties executed the agreement and both agreed to the recital. They had before them practically the same prior art which was presented at the [fol. 47] hearing. As a matter of fact Timken's lawyers knew more about the prior art than Alma did, an important use having been shown to Alma's counsel, for the first time, only a few hours before the conference.

"The clause referring to the issuance of a patent with claims dominating transfer cases made by Timken seems to have been inserted, from an excess of caution, to be sure that 'said improvements' could not possibly be construed to cover any improvements disclosed by the pending application which might be eliminated or extensively modified in the issued patent. If anything, this clause only serves to make stronger the inference that the subject matter of the license was improvements as described in the patent claims.

"The provision contained in Clause IV does not permit the licensee to contest the validity of the patent. This point is settled by the decision of the Supreme Court of the United States v. Harvey Steel Co., 196 U. S. 310.

"Another ground for Timken's contention that it is not estopped is the public interest involved in

any adjudication involving the validity of the patent. There have been cases in which public interest has been said to be a justification for allowing a licensee to contest validity but, as pointed out by this Court in Crom v. Cement Gun Company, Civil Action No. 145, in an opinion filed June 25, 1942, but not yet reported, this is only in exceptional cases. Such a case was Standard Water etc. v. Griscom-Russell Co., 278 Fed. 703. That decision as pointed out by this Court in the Crom case did not change the general rule for the Third Circuit. I find no circumstances in the present action which requires a consideration of the validity of this patent in the public interest. I am not adjudicating its validity. I am merely holding that this plaintiff may not contest it, and I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here. I might go further and say that an issue which the party who attempts to raise it is [fol. 48] estopped to contest does not present a justiciable controversy under the Declaratory Judgment Act" (R. 33-36).

As the order or sequence in point of time of the various events which occurred that have resulted in bringing this case before this Court for review bear most importantly on the issues, we have set these events forth in chronological order.

(b) The Action in the District Court

January 23, 1941, respondent, The Timken-Detroit Axle Company, by filing its complaint (R. 2-9) in the United States District Court for the District of Delaware, initiated the proceedings which have brought the parties before this tribunal. Respondent under the Declaratory Judgment Act (Section 274-d Judicial Code; 28 U.S.C.A.

400) sought a determination that petitioner's United States Letters Patent 2,173,044 (Application Serial No. 7751), issued to Ruggles and Smith September 12, 1939, is invalid; not infringed by the structures manufactured, used and/or sold by the respondent (R. 7, 9); and further that the respondent—although a license agreement (R. 88-90) existed between petitioner and respondent, wherein the latter was licensed to practice the invention of the aforesaid patent—was not obligated to pay royalties upon any of the transfer cases manufactured by respondent (R. 8).

May 5, 1944, petitioner filed an answer and counterclaim (R. 9-13) for damages resulting from respondent's refusal to pay royalties under the said license agreement.

May 18 to 22, 1942, the case duly came to trial and was tried in open court before District Judge Kirkpatrick.

September 23, 1942, District Judge Kirkpatrick filed his opinion (R. 33-49) wherein he held that the respondent Timken, being a licensee under the aforesaid patent, was estopped to contest the validity of said patent and further that certain specified transfer cases manufactured by the respondent infringed certain of the claims of the patent but that other transfer cases did not infringe.

December 2, 1942, judgment was entered in the District Court decreeing:

> "1. That Letters Patent of the United States No. 2,173,044, issued September 12, 1939, on the invention of Ruggles and Smith for 'Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles' is owned by the defendant, Alma Motor Company.

"2. Plaintiff is a licensee under such patent and has been since the issuance thereof on September 12, 1939.

"3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein.

"4. That plaintiff has manufactured and sold auxiliary transmission mechanism since the issue date of said Ruggles and Smith patent which are dominated by one or more claims of such Ruggles and Smith patent," the Court specifying the specific transfer cases and the claims by which they are dominated, *"and that plaintiff should have paid to defendant royalties in accordance with the license agreement on all such auxiliary transfer cases."**

"5. The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant in this suit."

c. Proceedings Under Public Law 768

October 31, 1942, Public Law 768, known as the Royalty Adjustment Act (R. 56-59), became effective as law.

December 30, 1942, the office of the Chief of Ordnance, War Department, issued a notice, under Public Law 768 (R. 106-7), stating that royalty payments by respondent to petitioner were believed to be excessive and directing that no further royalties be paid in excess of that to be specified in an order to be subsequently issued.

(*Emphasis in this and other quotations ours.)

January 8, 1943, pursuant to said notice, petitioner by written request (R. 107-8) to the Chief of Ordnance, War Department, asked that a hearing be granted petitioner.

January 28, 1943, a deputy ordnance assistant notified petitioner that the requested hearing would be had at Detroit, Michigan, on February 8, 1943 (R. 109-10).

February 8, 1943, a hearing before a Royalty Adjustment Board, consisting of two army ordnance officers and a naval officer, was held at Detroit, Michigan (R. 61-86).

July 28, 1943, the War Department, allegedly "pursuant to authority contained in the Act of October 31, 1942" (Public Law 768) issued Royalty Adjustment Order No. W-3 (R. 93-97), which order *inter alia* directed (1) respondent—the licensee, The Timken-Detroit Axle Company—to pay no further royalty to the licensor, Alma Motor Company (R. 94, par. "2"), (2) Timken was ordered "forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing," under such license "which (a) on the effective date of said notice (December 30, 1942) were due and payable to licensor but were unpaid or (b) fall due for payment at any time after the effective date of said notice * * *" (R. 95 par. "3"); and (3) Timken was ordered to reduce the contract price on all material "for which licensee has not on the date of this Order received payment" (R. 95, par. "4").

d. Proceedings in the Third Circuit Court of Appeals

February 27, 1943, petitioner filed its appeal to the Third Circuit Court from that part only of the judgment

contained in paragraph 5 thereof; petitioner's appeal being specifically limited, however, to those transfer cases manufactured by respondent, Timken, and designated as the T-79 cases (R. 51-2). Respondent filed no appeal whatsoever.

On August 25, 1943, after the issuance of the aforesaid Order No. W-3, respondent Timken filed a motion (R. 53) to dismiss petitioner Alma's appeal to the Third Circuit Court of Appeals, which appeal had been filed on the 27th day of February 1943, as above stated. It was urged (a) that said appeal be dismissed "because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768"; (R. 53) or, in the alternative (b) that the appeal be dismissed and the cause "be remanded to the District Court of Delaware with instructions to consider its judgment in light of the War Department order issued against the parties hereto on July 28, 1943, and to take such further action as may be appropriate under the circumstances" (R. 53).

November 15, 1943, when petitioner's appeal in the Third Circuit was called for hearing, the Department of Justice presented its Motion for Leave to File a Memorandum Brief as *Amicus Curiae* in support of Timken's motion to dismiss petitioner's appeal (R. 96-97). Such leave was granted. The motion of the Government urged that petitioner's appeal had been rendered moot by the issuance of Royalty Adjustment Order No. W-3 under Public Law 768 (R. 97).

The argument at the hearing on November 15, 1943, was directed solely to the motion to dismiss the appeal, the Court declining to hear argument on the merits at that stage of the proceedings. At the conclusion of the argument the Court directed counsel for petitioner to

assert Alma's position with regard to the constitutionality of the Royalty Adjustment Act (R. 113).

December 6, 1943, in response to such direction, petitioner filed its Petition to Review and Vacate Royalty Adjustment Order No. W-3 (R. 98-103). The said petition invoked the Constitution of the United States for the protection of petitioner, Alma Motor Company's, rights (R. 101) and urged:

(1) That as the notice of the hearing by the Royalty Adjustment Board on February 8, 1943, which stated that the hearing was to be held for the purpose of examining into the reasonableness of the royalty provided for by the license contract between the parties, did not correspond with the subject matter examined into at such hearing, viz., the validity of the Ruggles and Smith patent, therefore the hearing and the order issued as the result of such hearing did not constitute due process of law (R. 101).

(2) That the Royalty Adjustment Order No. W-3 was unconstitutional as retrospective and destroyed property rights of petitioner which had become legally and completely vested long prior to the issuance of said order (R. 101-102).

(3) That as the Order providing that there should be no payment of royalty under the contract was based upon a holding of invalidity of the Ruggles and Smith patent No. 2,173,044, predicated upon "an opinion of the Chief of Ordnance" arrived at prior to said hearing; as no evidence was produced at the hearing; no proper notice of hearing was given; and no findings made to support the legal conclusion of invalidity; petitioner was divested of vested property rights without due process of law (R. 102).

(4) That as Royalty Adjustment Order No. W-3 is clearly retrospective and destroyed property rights of petitioner which had become completely and fully vested prior to the issuance of such Order, Public Law 768 is unconstitutional, insofar as it authorized the issuance of the said Order, as violative of the provisions of the Fifth Amendment to the Constitution (R. 102).

(5) That as the said Royalty Adjustment Order No. W-3 and/or Public Law 768, purports to affect and modify a contractual obligation between private parties by authorizing a defense to said contractual obligation nonexistent at law prior to October 31, 1942, and affecting property rights that had become legally and completely vested prior to said date; said Royalty Adjustment Order and/or Public Law 768 are invalid and unconstitutional (R. 102); and

(6) That insofar as Royalty Adjustment Order No. W-3 held a duly issued United States Letters Patent invalid or insofar as Public Law 768 authorized an Administrative Board of the Executive Department to pass upon the validity of a United States patent, said Order and/or Public Law 768 is invalid and unconstitutional as (a) constituting an arbitrary and capricious exercise of power and usurpation of a purely judicial prerogative by such an Administrative Board; (b) deprived appellant of a vested property right without due process of law in contravention to the explicit prohibitions of the Fifth Amendment to the Constitution of the United States; (c) violated the provisions of Article III, Section 2 of said Constitution and violated the intent and purpose of the second paragraph of Article VI of said Constitution.

December 7, 1943, the Clerk of the Third Circuit Court of Appeals duly certified to the Attorney General, pur-

suant to the Act of August 24, 1937 (28 USC 401), that appellant had challenged the constitutionality of the Royalty Adjustment Act of October 31, 1942, Public Law 768 (35 USC 89, et seq.) (R. 110). The Attorney General, in response to such certification, filed a petition in the name of the United States of America for leave to intervene.

April 18, 1944, the case was again called for hearing before the Third Circuit Court of Appeals, the hearing being directed solely to the question of the constitutionality of Royalty Adjustment Order No. W-3 and Public Law 768, on briefs and argument by the Assistant Attorney General, the Honorable Francis M. Shea for the United States, and on briefs and argument by counsel for petitioner and respondent, respectively.

August 7, 1944, the Third Circuit Court of Appeals filed its opinion, by Circuit Judge Goodrich, holding *inter alia* that the Act of October 31, 1942, Public Law 768, provided for "a taking of private property for public use" (R. 116-117); that such taking was in pursuance of the war power of the United States (R. 117); that the statute could constitutionally be applied to royalties which had accumulated prior to the statute (R. 118); and that "the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120).

The Court then directed that Paragraph 5 of the judgment of the District Court, from which petitioner had duly filed its appeal, be vacated and the

> "cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable

> controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot" (R. 120-121).

September 7, 1944, petitioner filed its petition for rehearing (R. 122-129) with the Third Circuit Court of Appeals, showing that an affidavit (dated August 17, 1943, and filed in said Court by respondent Timken in support of its motion to dismiss petitioner's appeal therein) by John E. Gallagher, the patent attorney in charge of the Patent Department of respondent, The Timken-Detroit Axle company, stated

> "* * * our records show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of the Ruggles and Smith patent 2,173,044, have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; * * *". (R. 60)

In its petition for rehearing, petitioner urged that if royalties had not been charged to the Government on any of the transfer cases involved in the litigation, *there could be no public interest in any of the royalties*, i.e., the money adjudged by the District Court to be due and payable by respondent, The Timken-Detroit Axle Company, to petitioner, Alma Motor Company, and particularly the transfer cases sold by Timken to the Government prior to July 28, 1943, the date of issuance of the Royalty Adjusfment Order No. W-3, and specifically the transfer cases designated as the T-79 cases involved in

the merits of the appeal to the Third Circuit Court of Appeals in this case.

October 2, 1944, the Third Circuit Court of Appeals denied petitioner's petition for rehearing without opinion (R. 130) and made a slight modification of its order filed August 7, 1944 (R. 129-130).

4. SPECIFICATIONS OF ERRORS

The Third Circuit Court of Appeals erred:

(1) In permitting its jurisdiction to be ousted by the Order of an Administrative Board of the Executive Department.

(2) In deciding that the rights acquired by a judgment creditor prior to the issuance of an Administrative Order under Public Law 768 to money held by a District Court to be due and payable prior to the passage of said Law could be taken away by the passage of such Act.

(3) In holding that the statute (Public Law 768) may constitutionally be applied to royalties which had become due and payable prior to the passage of said statute.

(4) In deciding that the Federal right of eminent domain may be constitutionally exercised under the war power of Congress to justify the sequestration or seizure by the Government of mere money due from one private person to another private person.

(5) In holding that the Federal right of eminent domain may be constitutionally exercised to justify the

seizure or sequestration of mere money in the absence of any finding in the particular case for necessity for the taking.

(6) In holding that the Royalty Adjustment Order No. W-3 authorized the taking of private property for public use, in the absence of any showing or finding that the money directed to be paid by said Order to the Treasurer of the United States had ever been charged, or was chargeable to, the United States and despite a contrary showing in the record that the money due as royalties had never been so charged to the United States.

(7) In not holding that there was a taking of private property for private use in violation of petitioner's constitutional rights.

(8) In not holding as unconstitutional, as a denial of due process of law, the provisions of Public Law 768 which make the sole and exclusive remedy by a creditor against his debtor under a patent royalty contract, a suit against the Government in the legislative Court of Claims, and authorizes a defense by the Government to the contractual obligation, which defense was non-existent at law to the debtor prior to the passage of such Act.

(9) In not holding as unconstitutional, as a denial of due process of law, Royalty Adjustment Order No. W-3, allegedly issued pursuant to the Act of October 31, 1942 (Public Law 768), when by its opinion in this case the Court in effect held said Order destroyed the right of a judgment creditor to proceed against his judgment debtor with pending litigation in the constitutional Federal courts and compels the judgment creditor to institute a new suit against a different defendant, namely the Government, with a different defense, non-existent at law to the

debtor prior to the passage of such Act and in a different tribunal, the legislative Court of Claims.

(10) In not holding that an Order of an Administrative Board of the Executive Department which in effect holds invalid a duly issued United States Letters Patent is unconstitutional as a usurpation of a purely judicial prerogative by such Administrative Board.

(11) In not holding that an Order of an Administrative Board of the Executive Department, holding a duly issued United States Letters Patent invalid, which Order was issued as a result of a hearing, notice of which did not correspond to the subject matter examined into at such hearing, is unconstitutional as a denial of due process of law under the Fifth Amendment to the Federal constitution.

(12) In not holding that an Order issued by an Administrative Board of the Executive Department, holding invalid a duly issued United States Letters Patent, is unconstitutional when such Order was issued as a result of a hearing at which no evidence was introduced bearing on the question of invalidity.

(13) In not holding that an Order of an Administrative Board of the Executive Department, holding invalid a duly issued United States Letters Patent, is unconstitutional when such Order was issued as a result of a hearing, the Transcript of the Proceedings of which show that such holding of invalidity was based upon a mere opinion of an executive officer of the Government.

(14) In directing that Paragraph 5 of the judgment entered by the District Court in this cause be vacated.

(15) In directing that the cause be remanded to the District Court with directions to proceed no further therein.

(16) In directing that the District Court may vacate all or any part of the remainder of the District Court's judgment and dismiss the complaint as moot.

5. SUMMARY OF ARGUMENT

The argument is believed to be sufficiently summarized by the following points under which the argument is presented and subdivided.

Point 1. The independence of the Federal judiciary must be preserved and the jurisdiction of the Federal courts cannot constitutionally be ousted by an arbitrary Order of an Administrative Board.

Point 2. Public Law 768 insofar as it authorized the issuance of Royalty Adjustment Order No. W-3 is invalid and unconstitutional as retroactive and as a denial of due process of law.

Point 3. Public Law 768, by making the sole and exclusive remedy of a licensor for recovery of royalties due under a patent license contract a suit, not against the licensee, but against a different defendant, the United States in the Court of Claims with a new defense not available to the licensee, is unconstitutional as a denial of due process of law.

Point 4. As Public Law 768 permits a person to be deprived of property without providing for a full and impartial hearing with due notice thereof, it is unconstitutional as a denial of due process of law.

Point 5. As Royalty Adjustment Order No. W-3 was based on a holding of invalidity of a duly issued

United States Letters Patent, which holding was predicated upon a mere opinion of an executive officer, Public Law 768 insofar as it authorized the issuance of said Order is unconstitutional as a denial of due process of law.

Point 6. Neither Public Law 768 nor Royalty Adjustment Order No. W-3 is a constitutionally valid exercise of the Federal right of eminent domain.

Point 7. Royalty Adjustment Order No. W-3 is invalid because the Order affected the payment of royalties not charged or chargeable to the United States and hence not within the purview of Public Law 768 and the latter is unconstitutional as authorizing the issuance of such Order in contravention to the due process of law.

6. ARGUMENT

Point 1. The Independence of the Federal Judiciary Must be Preserved and the Jurisdiction of the Federal Courts Cannot Constitutionally be Ousted by an Arbitrary Order of an Administrative Board.

Not since *Marbury v. Madison* (1 Cr. 137) has this Court had presented to it questions of greater or more far-reaching public importance than presented by the instant case, one of the most outstanding of which is,—shall the independence of the Federal judiciary be preserved? We have not been able to find any case wherein the question has been more squarely presented than in the instant one.

Here we have a case wherein an action was instituted in the United States District Court for the District of Delaware under the Declaratory Judgment Act (Sec.

274-d Judicial Code; 28 U.S.C. 400) by the respondent, The Timken-Detroit Axle Company, on January 23, 1941. Respondent sought to have the District Court declare petitioner's patent No. 2,173,044 (issued to Ruggles and Smith, September 12, 1939) invalid; that certain transfer cases manufactured by respondent did not come within the claims of the patent and that, therefore, respondent was not bound to pay certain royalties, provided for by the contract between the parties, to petitioner Alma. Alma filed an Answer and counter-claim in the District Court, seeking judgment for damages because of the plaintiff's failure to pay the royalties provided for by the license contract. The Federal District Court clearly had jurisdiction over the subject matter.

After a full trial on the merits in open court, the District Court rendered its opinion on September 23, 1942, holding that respondent, Timken, was estopped to contest the validity of the patent and that the respondent should have paid royalties to petitioner on certain of the transfer cases manufactured by respondent (*supra* p. 8-9).

Although formal judgment was not entered in the District Court until December 2, 1942, the entry of the judgment was a mere formality for the purpose of carrying into effect the disposition of the case as made by the District Court in its decision of September 23, 1942; the date of entry of the judgment being important only as marking the date from which the time for appeal would run.

More than a month after the District Judge had fully passed on the merits of the controversy and determined the rights of the parties, Public Law 768 became effective on October 31, 1942. More than three months after the date when the controversy was decided by the District

Court, the office of the Chief of Ordnance of the War Department on December 30, 1942, served a notice upon petitioner under Public Law 768 that royalties being paid under the license contract between the parties were "believed to be unreasonable or excessive" and that no further royalties be paid until the making of an Order subsequently to be issued fixing and specifying the rates or amount of royalties to be paid.

On February 27, 1943, petitioner filed an appeal to the Third Circuit Court of Appeals from a part only of the judgment of the District Court. Respondent filed no appeal from the judgment of the District Court within the time limit provided by law and hence that part of the judgment, from which petitioner had likewise filed no appeal, became final.

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93, 97) which directed respondent to pay no further royalty to the licensor.

On August 25, 1943, respondent filed a motion that petitioner's appeal in the Third Circuit Court of Appeals be dismissed because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768. The United States Government filed an *amicus curiae* brief in support of respondent's motion to dismiss. The Court of Appeals refused to consider the case on the merits of petitioner's appeal from the judgment of the District Court and instructed counsel for petitioner to assert petitioner's position with respect to the constitutionality of Public Law 768. Petitioner attacked the constitutionality of the law, and, as a result, the United States under the Act of August 24, 1937 (28 U.S.C. 401) intervened for the purpose of supporting the constitutionality of the Act.

As respondent set up Public Law 768 as a defense to its payment of royalties, held by the District Court to be due petitioner under the license contract between the parties, and as, moreover, both the Government and Timken urged Public Law 768 as grounds for dismissing the appeal, the constitutionality of the law is placed squarely before this Court in view of the ruling made by it in its recent decision, *Coffman v. Breeze Corporations, Inc., et al.* (65 S. Ct. 298).

The Circuit Court of Appeals by its decision herein and particularly by its Order (R. 121) under the terms of which it remanded the case to the District Court

> "with directions to proceed no further therein unless and until it shall appear to the court that a justiciable controversy again exists between the parties, arising out of the facts set forth in the Complaint, except that the court may if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the Complaint as moot."

in effect ruled that Royalty Adjustment Order No. W-3 issued July 28, 1943, by an Administrative Board of the Executive Department not only completely ousted its jurisdiction, which had attached on February 27, 1943 and prevented it from considering the case which was properly before it, but also said Order rendered nugatory that part of the judgment of the District Court, entered December 2, 1942, which had become final because of Timken's failure to appeal therefrom.

Although the Court of Appeals in its opinion did not directly rule that its jurisdiction was ousted by Royalty Adjustment Order No. W-3 and Public Law 768, its action in remanding the case to the District Court without pass-

ing on the merits of petitioner's appeal was a clear and unequivocal relinquishment of the court's jurisdiction and tantamount to a direct holding that the said Order and Public Law 768 not only relieved the Court of the clear judicial duty which rested upon it to consider and determine the merits of petitioner's appeal, but that said Order and Law deprived the court of the judicial power so clearly conferred upon the United States constitutional courts by Sections 1 and 2 of Article III of the Constitution of the United States.

Likewise the action of the court in remanding the case to the District Court with the direction or mandate to the District Court that it should proceed no further in the case was tantamount to a direct ruling that Royalty Adjustment Order No. W-3, issued by an Administrative Board of the Executive Department, and Public Law 768, had the force and effect of vitiating and rendering nugatory the judgment of the District Court which had become final.

Article III of the Constitution provides:

> "Section 1. The judicial Power of the United States shall be vested in one supreme Court and in such inferior courts as the Congress may from time to time ordain and establish. • • •
>
> Section 2. The judicial Power shall extend to all cases arising under this Constitution, the laws of the United States, and • • • — to controversies • • • —between citizens of different states, — • • •."

There can be no question but that the case presented by petitioner's appeal to the Third Circuit Court of Appeals was of the type to which the judicial power specifically extends under the Constitution. The case was clearly

one arising under the laws of the United States, viz. the Declaratory Judgment Act, Judicial Code, Sec. 274-d (28 U.S.C. 400), the Patent Laws of the United States, Judicial Code, Sec. 24, Par. 1 and 7 (28 U.S.C. 41) and Judicial Code, Sec. 128 (28 U.S.C. 225). Yet, the court apparently not realizing that the arguments of the respondent, Timken, and the Government were striking at the very heart and foundation of one of the strongest bulwarks of American civil liberties—the independence of the Federal judiciary not only supinely relinquished its jurisdiction, but, in effect, held that a purely Administrative Board of the Executive Department had far greater powers than a Federal Court of Appeals.

Although Paragraph 5 of the Judgment of the District Court had become final because of respondent's failure to appeal therefrom and therefore the Court of Appeals had no power to review that part of the judgment below the Court of Appeals, in effect, reversed the entire judgment below by instructing the District Court to proceed no further in the case, or, in the alternative, if the court below wished to do so, that it could dismiss the Complaint as moot. While the Order of the Court of Appeals does not specifically mention Royalty Adjustment Order No. W-3, nor Public Law 768, it is clear that the court's Order, based on its decision upholding the validity of Public Law 768 and said Order, imports to them greater and more far-reaching powers than would be possessed by the Court of Appeals itself.

During the proceedings below, the argument was made that the Court of Claims Act of 1910 (36 Stat. 851, 35 U.S.C. 68) as amended by the Act of 1918 (40 Stat. 705, 35 U.S.C. 68) were the prototypes of Public Law 768. The Court of Appeals apparently was swayed by these argu

ments for it relied heavily on these Acts and certain decisions of this court in interpreting them in its attempt to justify several of its conclusions. These Court of Claims Acts, however, as we shall hereinafter show, are clearly distinct and different from Public Law 768, but if these Acts, and the decisions of this court thereunder, are to be considered as authority for the interpretation of Public Law 768, we submit the action of the Third Circuit Court of Appeals in relinquishing its jurisdiction to be clearly erroneous.

This court had before it a somewhat analogous situation in *Sperry Gyroscope Co. v. Arma Engineering Co.* (271 U. S. 232) wherein the District Court dismissed the Bill of Complaint for lack of jurisdiction. This court stating:

> "We are, now, concerned only with the power of the trial court to decide the controversy revealed by the record" (271 U. S. 234).

ruled

> "The true intent and meaning of the statute is not free from doubt; but certainly *there is nothing therein which shows any clear purpose to take away the power to decide.* It became the duty of the court below to consider and determine whether, in the circumstances stated, appellee was relieved of liability and permitted by the statute to do what otherwise would have constituted a violation of appellant's rights. There was jurisdiction." (271 U. S. 235, 236).

The action of the Circuit Court of Appeals in relinquishing its jurisdiction was also directly in conflict with the holding of Justice Marshall in *Smith vs. McIver* (9 Wheat. 532, 535) to the effect that

"the court which first has possession of the subject *must* decide it" (Italics ours).

In *Crowell vs. Benson* (285 U. S. 22) a matter of private rights was before this Court, namely the liability of one individual to another under the Longshoreman's and Harbor Worker's Compensation Act of March 4, 1927 (44 Stat. 1424, 33 U.S.C. Secs. 901-950). In considering the question of the maintenance of the judicial power under the Constitution, Chief Justice Hughes said:

"In relation to these basic facts, the question is not the ordinary one as to the propriety of provision for administrative determinations. Nor have we simply the question of due process in relation to notice and hearing. It is rather a question of the appropriate maintenance of the federal judicial power in requiring the observance of constitutional restrictions. It is the question whether the Congress may substitute for constitutional courts, in which the judicial power of the United States is vested, an administrative agency—in this instance a single deputy commissioner—for the final determination of the existence of the facts upon which the enforcement of the constitutional rights of the citizen depend. The recognition of the utility and convenience of administrative agencies for the investigation and finding of facts within their proper province, and the support of their authorized action, does not require the conclusion that there is no limitation of their use, and that the Congress could completely oust the courts of all determinations of fact by vesting the authority to make them with finality in its own instrumentalities or in the executive department. That would be to sap the judicial power as it exists under the Federal Constitution, and to establish a government of a bureaucratic character alien to our system, wherever fun-

damental rights depend, as not infrequently they do depend, upon the facts, and finality as to facts becomes in effect finality in law" (285 U. S. at pp. 56-7)*.

The action of the Third Circuit Court of Appeals in this case is, we believe, without precedent. Surely there has never been another case wherein a Federal Court has ruled that a mere administrative board of the Executive Department could constitutionally be granted the power to issue an order of such magnitude as *to oust the jurisdiction* conferred upon the federal courts by the Constitution of the United States.

We have been unable to find any such case nor have we found any case wherein the order of an administrative board has been held *paramount to a judgment* of a federal court. As the War Department's assertion of invalidity of the Ruggles and Smith patent 2,173,044, which by the judgment of the District Court, respondent Timken was estopped to deny, and the issuance of Royalty Adjustment Order No. W-3 was, by the averments in the affidavit of John E. Gallagher "based on the art of record in this litigation" (R. 60) and the contentions of respondent Timken that said patent "was invalid in view of the prior art relied upon in this litigation" (R. 61), Royalty Order No. W-3 has been, by the order of the Court of Appeals, given the force and effect of overruling the en-

*The Court, however, in *Crowell v. Benson* in recognition of the cardinal rule applied by it, that when a serious doubt as to the constitutionality of a law is raised if "a construction of the statute is fairly possible by which the question may be avoided" the court will adopt it, held the law to be valid because a complete review *de novo* was had in the Federal District Court of the essential facts, viz., whether the injury occurred upon navigable waters and the fact of employment. 285 U. S. at p. 62.

tire judgment of the District Court, including Paragraphs 3 and 4 thereof (R. 49, 50) which had become final.

The decision of the Court of Appeals in upholding the constitutionality of Public Law 768 and the validity of Royalty Adjustment Order No. W-3, and in giving the order such scope as, in effect, to overrule the judgment of the District Court, is directly *contra* the following rulings of this court

> "* * * inasmuch as the judgment in the trial court was rendered, as we have seen, prior to the repealing act, * * * the right acquired by a judgment creditor was not and could not constitutionally be taken away";
>
> *McCullough vs. Virginia*, 172 U. S. 102, at 125.
>
> "* * * the private rights of parties which have been vested by the judgment of a court cannot be taken away by subsequent legislation, but must be thereafter enforced by the Court regardless of such legislation."
>
> *Hodges v. Snyder*, 261 U. S. 600, at 603.

See also:

> *Coombes v. Guest*, 285 U. S. 434;
>
> *Ettor v. Tacoma*, 228 U. S. 148.

While it is true the above cases involve the prohibition placed upon the States by Article I, Section 10 of the Fourteenth Amendment to the Constitution, nevertheless the rule of those cases, we submit, applies fully to the situation in the present case. However, this court stated

> *"that Congress cannot withdraw from judicial cognizance any matter which from its nature is the subject of a suit at the common law or in equity."*

Murray's Lessee, et al. vs. Hoboken Land Imp. Co., 18 How. 272.

If Congress cannot withdraw from judicial cognizance any matter which is the subject of a suit, it cannot, any more than a State Legislature, pass a law which vitiates a judgment already entered, or pass a law which gives a purely administrative board of the Executive Department greater authority than that held by an Appellate Federal Court under the judicial power conferred on such court by the Constitution of the United States.

We believe the action of the Third Circuit Court of Appeals to have been wholly erroneous in relinquishing its jurisdiction and in refusing to act upon the merits of a case over which it clearly had jurisdiction, because Public Law 768, like the Court of Claims Act of 1910, has nothing therein which shows any clear purpose to take away the power to decide (*Sperry Gyroscope Co. v. Arma Engineering Co., supra*). Likewise Public Law 768 fails to indicate any purpose that it, or any order issued under it could or should overrule a judgment already entered. Neither does the Law reveal any intention that it be used to oust the jurisdiction of a Federal Court over litigation pending before it. If not erroneous, however, the interpretation and the far-reaching effect given by the Third Circuit Court of Appeals to Royalty Adjustment Order No. W-3 and Public Law 768, clearly compel a holding by this court that Public Law 768 is invalid and unconstitutional. Otherwise the much vaunted independence of the federal judiciary has become a sham and a hollow mockery.

Point 2. Public Law 768 Insofar as it Authorized the Issuance of Royalty Adjustment Order No. W-3 is Invalid and Unconstitutional as Retroactive and as a Denial of Due Process of Law.

The record here establishes that during the period from September 12, 1939, the date of issuance of the Ruggles and Smith patent in suit and up to and including September, 1942, one month before Public Law 768 became effective on October 31, 1942, respondent Timken had manufactured and sold over 15,000 of the T-32-13 type transfer cases (see Schenck affidavit, R. 105). These were the cases on which the District Court decreed (R. 49-50) Timken should have paid Alma royalties in accordance with the license agreement. The record also shows that up to and including September, 1942, respondent Timken made and sold over 80,000 of the T-79 cases (R. 105) involved in the merits of petitioner's appeal to the Third Circuit Court of Appeals. As the Third Circuit Court of Appeals refused to consider the merits of the appeal and as it ordered the District Court to proceed no further with the case and dismiss the complaint, it clearly gave Royalty Adjustment Order No. W-3 and Public Law 768 wide-sweeping, retroactive effect, not only as to material furnished to the Government prior to the effective date of the notice of December 30, 1942, and prior to the effective date of the Order of July 28, 1943, but also prior to October 31, 1942, the effective date of the Royalty Adjustment Act. An examination of the bill S 2794 (which as finally enacted became Public Law 768) shows that Section 7 of the proposed act as originally introduced was framed in such a way that the act would be clearly non-retroactive, as it provided:

> "Sec. 7. This act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment or materials deliverable to the Government from and after the date of the approval hereof." (Ap. 1, p. 7)*

This section was amended so that the words "the date of the approval hereof" immediately following the word "after" at the end of the section were stricken and "the effective date of this act" substituted in lieu thereof (Ap. 1, p. 8). In addition, there was added to Section 7 the following new sentence:

> "This act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this act" (Ap. 1, p. 8).

The addition of this last quoted sentence clearly made the Act retroactive and made it applicable to supplies, equipment and materials delivered prior to the effective date of the Act. The language of the Act, as finally amended (Ap. 5, p. 18), is such that it applies to all royalties, irrespective of the date when they became due and which had not been paid by the licensor on the date of the notice given under the Act. In the instant case this

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*For the convenience of the Court we are filing a number of sets of a separately bound volume entitled "Appendix to Petitioner's Brief" and containing the following:

(1) Copy of Public Law 768.
(2) Hearings Before Committee on Patents * * * (Public Law 768).
(3) Report of House Committee on Patents.
(4) Reprint from Congressional Record, Senate Proceedings, Oct. 15, 1942.
(5) Reprint from Congressional Record, House Proceedings, Oct. 22, 1942.

As each of the above has its own page numbers, citations herein to them will be made as follows: Ap. 1, p. ... Ap. 2, p. ... etc.

date was December 30, 1942. On that date respondent Timken had withheld payment of royalties for transfer cases delivered as far back as 1939. Therefore as the provisions of the Act and Royalty Adjustment Order No. W-3 are clearly retroactive they were so construed by the Third Circuit Court of Appeals and were extended by it back to 1939 to cover all the transfer cases in issue.

As Paragraph 4 of Royalty Adjustment Order No. W-3 directs the licensee (Timken) "to reduce the contract price of all supplies * * * which have been delivered * * * to or for the War Department * * * but for which the licensee has not on the date of this Order received payment" the Order specifically exempts Timken from making any reduction as to any transfer cases for which Timken had received payment prior to July 28, 1943, the date of the Order. As the license contract (Exhibit C, R. 89) required Timken to make returns on "Transfer Cases" manufactured and/or sold, the conclusion is inescapable that all of the cases enumerated in the Schenck affidavit (R. 105) were ones for which Timken had received payment. Although the Order was before the Court below, it apparently made no study of paragraph 4 thereof, but was content to base its decree on paragraph 2 of the Order. The situation in this respect is, we submit, a most aggravated one. Respondent Timken, after thorough investigation, entered into the license contract and agreed to pay Alma a royalty which Timken's patent attorney, when on the stand in the District Court, repeatedly admitted was a very low royalty and which the contract shows was but 50c for each transfer case (R. 89). As the transfer cases sold for approximately $100.00 each, the royalty therefore was but ½ of 1% (R. 69). Timken attempted to welch upon its contract and brought the declaratory judgment action. It attempted to get out

from under the contract by attacking the validity of this patent which, as a matter of law, it was estopped to deny. It was defeated in its purpose. By the admission of its patent attorney it never charged any royalty to the Government on any of the transfer cases involved in the present controversy (R. 60); yet it claims the benefit of retrospective provisions of Public Law 768 and Royalty Adjustment Order No. W-3 to escape payment of the money which the District Court adjudged it owed petitioner. The Circuit Court of Appeals, by its action, gives the Order and Act retroactive effect which enables respondent Timken to escape its obligations and permits them to be used to permit the private enrichment of Timken at Alma's expense.

While, as we have shown, Public Law 768 as administered in the instant case through the issuance of Royalty Adjustment Order No. W-3, is flagrantly retroactive, does its retroactivity, as it applies here, constitute a denial of due process of law? Let us consider the law first from this angle, leaving the question of due notice and hearing to be hereinafter discussed more fully.

Mere retroactivity alone of a law does not necessarily render it obnoxious to constitutional validity, for Congress may enact regulations dealing with, or impose restrictions upon, subject matter in a proper exercise of its granted powers, even though such regulations or restrictions may have concomitant adverse affect upon private contracts that depend upon the subject matter regulated.

The cases cited in the opinion below (R. 118) are examples of the above but none of them are even pertinent to, let alone controlling on, the situation here. Although Congress has the power under Article I, Section 8 of the Constitution:

> "To promote the Progress of Science and the useful arts, by securing for limited times to Authors and Inventors, the exclusive Right to their respective Writings and Discoveries;"

Public Law 768 was not enacted in furtherance of such power. It makes no pretense of being an enactment under the patent power of Congress, for it states:

> "* * * it is enacted * * * to aid in the successful prosecution of the War."

We believe Public Law 768 to be without precedent, as a law which directly provides for "impairing the Obligation of Contracts" specifically prohibited to the states by Article I, Sec. 10, Par. 1 of the Constitution. Indeed, it legislates directly upon a subject—the rights of the parties under a patent license or royalty contract—uniformly held by the courts to be a subject not coming under the purview of the patent laws or under the jurisdiction of the Federal courts except in cases of diversity of citizenship involving the requisite jurisdictional amount of money (see 28 U.S.C.A. §371, Note 104, and cases cited therein).

This court as far back as *Osborne v. Nicholson*, 13 Wall. 654, fully considered the question of the great danger that would result if not only a mere legislative act, but an amendment to the Constitution of the United States could be made retroactive. The language of this Court in that case is so pertinent to the situation here presented that we feel we can do no better than quote it as follows:

> "* * * But, without considering at length the several assumptions of the proposition, it is a sufficient answer to say that when the 13th Amendment to the Constitution of the United States was adopted, the rights of the plaintiff in this action had become legally and completely vested. Rights ac-

quired by a deed, will or contract of marriage, or other contract executed according to the statutes subsequently repealed subsist afterwards, as they were before, in all respects as if the statutes were still in full force. This is a principle of universal jurisprudence. It is necessary to the repose and welfare of all communities. A different rule would shake the social fabric to its foundations and let in a flood tide of intolerable evils. It would be contrary to 'the general principles of law and reason', and to one of the most vital ends of government. The doctrines of the repeal of statutes and the destruction of vested rights by implication, are alike unfavored in the law. Neither is to be admitted unless the implication is so clear as to be equivalent to an explicit declaration. Every doubt should be resolved against a construction so fraught with mischiefs. There is nothing in the language of the amendment which in the slightest degree warrants the inference that those who framed or those who adopted it intended that such should be its effect. It is wholly silent upon the subject. The proposition, if carried out in this case, would, in effect, take away one man's property and give it to another. And the deprivation would be 'without due process of law.' This is forbidden by the fundamental principles of the social compact, and is beyond the sphere of the legislative authority both of the States and the Nation.'" 13 Wall. 654 at 662-3.

How apposite is this language of this Court to the situation here presented! There is no explicit declaration in the Act of October 31, 1942, "which in the slightest degree warrants the inference that those who framed, or those who adopted, it intended" that it should effect contract rights which "had become legally and completely vested" prior to its passage.

This Court has uniformly held that retroactive legislation by Congress renders such legislation invalid as arbi-

trary and capricious. *Nichols v. Coolidge*, 274 U. S. 501; *Blodgett v. Holden*, 275 U. S. 142; *Untermeyer v. Anderson*, 276 U. S. 440.

One of the cases relied upon by the Court below is *Richmond Screw Anchor Co. v. United States* (275 U. S. 331), wherein this Court, in reversing a decision of the Court of Claims which held the provisions of R.S. 3447, prohibiting assignments of claims against the Government applied to claims under the 1918 Act, stated:

> "* * * *This result, i. 3477 Rev. Stats. applies and avoids the assignment, would seem to raise a serious question as to the constitutionality of the Act of 1918 under the Fifth Amendment to the Federal Constitution.*" (275 U. S. 331 at 345.)

Neither the 1910 nor the 1918 Act is retroactive. For example, the 1910 Act provides "the Court of Claims shall not entertain a suit * * * based on the use or manufacture by or for the United States of any article owned, leased, used by or in possession of the United States *prior to June 25, 1910*"—the effective date of the Act. The 1918 Act is similar, except that it reads "that said Court of Claims shall not entertain a suit * * * based on the use or manufacture by or for the United States of any article *heretofore* owned, leased, used by or in the possession of the United States."

Hence these Acts and the *Richmond* case, instead of supporting Public Law 768, augur a holding of its unconstitutionality as retroactive.

Completely disregarding all questions relating to the usurpation of its judicial power under the Constitution, the Third Circuit Court of Appeals held:

"The provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation. *Crozier v. Krupp*, 224 U. S. 290 (1911); *Identification Devices v. United States*, 121 F. (2d) 895 (App. D. C. 1941), cert. den. 314 U. S. 615 (1941), 314 U. S. 587 (1942), reh. den. 314 U. S. 710, 714 (1941), 315 U. S. 779 (1942); *Pierce v. Submarine Signal Co.*, 25 F. Supp. 862 (D. C. Mass. 1939). This in itself would be enough to uphold the constitutionality of a statute upon this point. The constitutionality is not impaired by a provision for a conference or hearing prior to court action which, if satisfactory, amicably adjusts that which otherwise would take litigation to settle. Our conclusion is that the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power. It simply goes the one step further to cover the exercise of that power in the field of patents, which had already been made by the Act of 1910, as amended. The provision of the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 119-120).

Let us consider first what has been done in the instant case. Petitioner Alma, in the exercise of its constitutionally guaranteed rights, having established by judgment the justness of a portion of its claim for royalty payment against respondent Timken, and having, as the result of a full trial in the District Court, made a record for appeal which it duly filed in the Third Circuit Court of Appeals as to the remainder of its claim, is now confronted with a holding that completely nullifies the judgment it obtained, as well as denies its right to prosecute its perfected appeal for review by the judicial power under the Constitution. It is told that

> "The provision in the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 120).

and that it

> " * * * is entitled to sue for whatever royalties it believes itself to be entitled" (R. 120).

We most respectfully, but nontheless vigorously, challenge the correctness of the statement "the provision for compensation to the owner is within the constitutional requirement of due process of law." Let us examine the Constitution. The Fifth Amendment provides that:

> "No person shall * * * be deprived of life, liberty, or property without due process of law; nor shall private property be taken for public use, without just compensation."

The constitutional compensation clause is separable and distinct from the due process clause. Manifestly either is complete without reference to, or the inclusion of, the other. So the fact that Public Law 768 provides for "compensation" to the owner is no answer to the question of whether the Law deprives a person of property without due process of law.

Let us now consider the meaning of the constitutional provision that no person shall be deprived of life, liberty or property without due process of law from the standpoint of the necessity that the due process shall occur prior to the deprivation.

Is it not perfectly clear that the obvious intendment of the Fifth Amendment is that the "due process of law" or "the law of the land" shall precede the deprivation? Or, as stated by the great Daniel Webster in the *Dartmouth College* case:

"By the law of the land is most clearly intended a law which hears before it condemns; which proceeds upon inquiry, and *renders judgment only after trial.* The meaning is that every citizen shall hold his life, liberty, property, and immunities, under the protection of the general rules which govern society. Everything which may pass under the form of an enactment is not therefore to be considered the law of the land.

If this were so, acts of attainder, bills of pains and penalties, acts of confiscation, acts reversing judgments, and acts directly transferring one man's estate to another, legislative judgments, decrees and forfeitures in all possible forms, would be the law of the land. Such a strange construction would render constitutional provisions of the highest importance completely inoperative and void. It would tend directly to establish the union of all powers in the legislature. There would be no general permanent law for courts to administer or men to live under. The administration of justice would be an empty form, an idle ceremony. Judges would sit to execute legislative judgments and decrees, not to declare the law or administer the justice of the country."

Dartmouth College v. Woodward, 4 Wheat. 519;

Can it be possible that the due process clause is satisfied by the greatly restricted right to sue afterwards, granted by Public Law 768 or, in the words of the Third Circuit Court of Appeals:

"Alma denied payment under the royalty agreement is entitled to sue for whatever royalties it believes itself to be entitled * * *"

This, however, is a constitutionally guaranteed right of Alma's which it exercised successfully, but which Public Law 768 specifically takes away.

It has been tritely said:

> "The constitutional validity of law is to be tested, not by what has been done under it, but what may, by its authority, be done."
>
> *Stuart v. Palmer*, 74 N. Y. 183, 188, 30 Atl. 289.

Any licensor under a patent royalty contract has a constitutional right to an action at law for damages for breach of contract and is guaranteed the right, under the provisions of the Seventh Amendment to a jury trial. These rights, however, are taken away by Section 1 of the Act and by the provisions which make the "*licensor's sole and exclusive remedy*" a suit in the Court of Claims. There is no right of jury trial in the Court of Claims which by the Act of February 13, 1925, c 229, 43 Stat. 936, is made the sole trier of facts. The alternative of suing in the District Courts is of no avail if, as here, the amount in controversy exceeds $10,000. Jud. Code 24 (20) 28 U.S.C.A. 41 (20). Therefore, if we test the constitutional validity of Public Law 768 by what may "by its authority be done," we find a full authorization for a denial of "the right of trial by jury" which the Seventh Amendment orders "shall be preserved."

Point 3. Public Law 768, by Making the Sole and Exclusive Remedy of a Licensor for Recovery of Royalties due Under a Patent License Contract a Suit, not against the Licensee, but against a Different Defendant, the United States, in the Court of Claims with a new Defense not Available to the Licensee, is Unconstitutional as a Denial of Due Process of Law.

Do the provisions of Sections 1 and 2 of Public Law 768 which make petitioner Alma's sole and exclusive

remedy a suit against the United States in the Court of Claims and which make available to the United States "any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement" constitute the "due process of law" contemplated by the Fifth Amendment? (R. 56-57).

The District Court in interpreting the license contract found that

> "The provision contained in Clause IV does not permit the licensee to contest the validity of the patent.* This point is settled by the decision of the Supreme Court of the (*sic*) *United States v. Harvey Steel Co.*, 196 U.S. 310" (R. 36).

It is important here to note that this Court in the *Harvey Steel Co.* case definitely held that the estoppel of a licensee to contest validity operates as fully against the Government as against a private party.

The rule which estops a licensee to attack the validity of a patent under which he is manufacturing is not a mere technicality of the patent law but is founded upon the salutary equitable principles of estoppel to the effect that one may not accept the benefits of a contract and at the same time deny the obligations thereof. It is a matter of common knowledge and indeed of common sense that no one ever agrees to pay as royalty any more than a fractional part of the savings effected, or profits expected, from the use of the invention. Ordinarily these savings or profits are in no way affected by the mere fact of the validity or invalidity of the patent, or to put it another way:

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*It also decreed as a matter of law "3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein." (Judgment (R. 49).

"Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think that the defendants are estopped from alleging that invalidity." *Kinsman, et al. v. Parkhurst* (18 How. 289, 293).

During the trial in the District Court, in a colloquy between Judge Kirkpatrick and counsel for respondent Timken, the latter admitted that the Army wanted the Ruggles and Smith type of transfer cases "because it sold cheaper" while the court summed up the situation by stating:

"It is a matter of expense and production, simplicity, compactness and various other things."*

*(See pages 253a-254a of Defendant's Appendix, the printed volume of the record on the merits in the Court of Appeals certified to this court but not reproduced as a part of the "Transcript of Record" here; further citation to which herein will be made as follows: D.A. p. .....)

So the Government and the people of the United States who get the benefit of the savings due to the cheaper patented construction, as well as its other advantages, should as a matter of plain justice be no more entitled to attack the validity of the patent than respondent Timken.

Public Law 768, however, deprives petitioner, or any other licensor, of its right of action against the licensee, restricts it to suit against the United States and gives the United States the right to attack the validity of the patent—a defense not available to the licensee, and a defense which the District Court specifically decreed respondent Timken was estopped to make.

In *Lynch v. United States* (292 U. S. 571) a case involving the validity of an Act of Congress affecting life insurance policies issued by the Government in the last war, this Court considered the necessity of the legislation from the standpoint of public interest but held the provisions of the Fifth Amendment to be paramount as follows:

> "* * * Second. *The Fifth Amendment commands that property be not taken without making just compensation.* Valid contracts are property, whether the obligor be a private individual, a municipality, a State or the United States. Rights against the United States arising out of a contract with it are protected by the Fifth Amendment. *United States v. Central Pacific R. Co.*, 118 U. S. 235, 238; *United States v. Northern Pacific Ry. Co.*, 256 U. S. 51, 64, 67. *When the United States enters into contract relations, its rights and duties therein are governed generally by the law applicable to contracts between private individuals.*" 292 U. S. 571 at 579.
>
> "* * * Third. Contracts between individuals or corporations are impaired within the meaning of the Constitution whenever the right to enforce them by legal process is taken away or *materially lessened.*" 292 U. S. 571 at 580-1.
>
> "* * * Fourth. The question requiring decision is, therefore, whether in repealing 'all laws granting or pertaining to yearly renewable term insurance' Congress aimed at the right or merely at the remedy. It seems clear that it intended to take away the right; and that Congress did not intend to preserve the right and merely withdraw consent to sue the United States." 292 U. S. 571 at 583.

Public Law 768, like the act under consideration in the *Lynch* case, does not go merely to a change in the procedural remedy but strikes directly at the heart of a legal

right which, as shown by the hearings before the Committee on Patents, was pointed out to the Committee. No other conclusion can be reached but that it was the intent and purpose of the law *to destroy* the pre-existent legal right because that manifestly is the result of depriving a licensor of its right to sue the licensee, making the licensor's sole and exclusive remedy a suit against the United States and of giving to the United States a defense not available to the licensee.

We direct attention to the fact that the Court of Appeals carefully refrained from discussing, or even alluding to this point in its opinion. The only reference made by it to due process of law is contained in its strange and, we submit, strained construction of the Fifth Amendment as follows:

> "The provision of the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 120).

Compensation, or the amount thereof, has nothing to do with due process of law, and the above holding, that it has, seems to us to be a suggestion that one of the most important fundamentals of the American Bill of Rights consistently recognized as an inalienable birthright of an American citizen is a mere matter of dollars and cents to be flaunted by Congress at will, and that under the American constitution the owner may be deprived of property without due process of law as long as provision for compensation is made.

This Court has repeatedly held a patent to be property entitled to the same legal protection as other property.

Seymour v. Osborne, 11 Wall 516;

Cammeyer v. Newton, 94 U. S. 225;

Jones v. Campbell, 104 U. S. 356;

United States v. Palmer, 128 U. S. 262.

It reiterated this in its recent decision in

Hartford Empire et al v. United States, 65 S. Ct. 373.

Obviously, petitioner's right to the money due as royalty under its license contract is equally a property right. Public Law 768 and Royalty Adjustment Order No. W-3 indubitably deprive petitioner of its property, the money long overdue, postpone indefinitely the right of recovery by relegating petitioner to a suit against the United States in the Court of Claims, and grant the Government a defense not available to respondent Timken. Meanwhile a cloud is cast upon plaintiff's title, because of the holding of invalidity, inherent in the Order, as to render the patent property worthless to petitioner, yet in no way affecting or deteriorating the value of its use—in profits to respondent Timken—and—in savings to the Government.

Can it possibly be said that this is not depriving petitioner of its property? Or that as long as petitioner still retains the title to the patent it has not been deprived of its property?

We believe these questions are completely answered in the negative by the following:

> "• • • The principles, then, upon which the process is based are to determine whether it is 'due process' or not, and not any considerations of mere

form. Administrative and remedial process may be changed from time to time, but only with due regard to the landmarks established for the protection of the citizen. When the government through its established agencies interferes with the title to one's property, or *with his independent enjoyment of it*, and its action is called in question as not in accordance with the law of the land, we are to test its validity by those principles of civil liberty and constitutional protection which have become established in our system of laws, and not generally by rules that pertain to forms of procedure merely. In judicial proceedings the law of the land requires a hearing before condemnation, and judgment before dispossession; but when property is appropriated by the government to public uses, or the legislature interferes to give direction to its title through remedial statutes, different considerations from those which regard the controversies between man and man must prevail, different proceedings are required, and we have only to see whether the interference can be justified by the established rules applicable to the special case. Due process of law in each particular case means, such an exertion of the powers of government as the settled maxims of law permit and sanction, and under such safeguards for the protection of individual rights as those maxims prescribe for the class of cases to which the one in question belongs." (Cooley's Constitutional Limitations, 5th Edition, pp. 435-436.)

If the constitutionality of Public Law 768 is to be controlled by the decisions of this Court interpreting the 1910 and 1918 Acts, again we refer to *Richmond Screw Anchor Co. v. United States, supra*, a case upon which the Circuit Court of Appeals relied as having particular pertinence to the question here under discussion, namely,

is Public Law 768 which specifically deprives a licensor—a patent owner—of its right of action against the licensee under a patent license contract for damages for breach of contract and makes the sole and exclusive remedy of the patent owner a suit against a different defendant, the United States, in the Court of Claims and gives to the United States a defense not available to the licensee, due process of law? This Court clearly indicated the contrary in the *Richmond Screw Anchor* case as follows:

> "* * * If now section 3477 applies and these assignments are rendered void, the effect of the Act of 1918 is to take away from the assignee and present owner not only the cause of action against the Government, but also to deprive it of the cause of action against the infringing contractor for injury by his infringement." 275 U. S. 331 at 345.

So if such decisions are controlling, a holding by this Court that Public Law 768 is unconstitutional seems to us to be inescapable.

Again applying the 1910 Act and its decisions to Public Law 768, the Court of Appeals stated:

> "* * * Furthermore, we have authority which supports appropriations in the patent field in the decisions, already cited, applying the 1910 Act. Our only new question here, therefore, is the public use aspect of the extension by legislation to include the taking over of license agreements as well as patent rights not subject to such agreements" (R. 117).

If, as the Court of Appeals assumed, the only new question here involved is the "taking over of license agreements" by the Government, the very recent holding of

this Court in *United States v. General Motors Corp.*, 65 S. Ct. 357, surely must apply:

> "When the sovereign exercises the power of eminent domain it substitutes itself in relation to the physical thing in question in place of him who formerly bore the relationship to that thing which we dominate ownership."

In other words, the Government, if it takes over the license, must step into the shoes of the licensee so that the estoppel with respect to contesting the validity of a licensor's patent which this Court held in *United States v. Harvey Steel Co.*, 196 U. S. 310, applies to the Government, as well as to a private party, must also apply. If the above cases do not apply it could only be as a result of a holding here that Congress may legislate in contravention to the rules laid down by this Court in interpreting the law of eminent domain. To put the matter another way, the Court of Appeals held Public Law 768 to be an exercise of the right of eminent domain, yet the clear intent and purpose of the law violate cardinal rules that control or limit the proper exercise of the right of eminent domain.

Point 4. As Public Law 768 permits a person to be deprived of property without providing for a full and impartial hearing with due notice thereof, it is unconstitutional as a denial of due process of law.

As we have seen, due process of law clearly contemplates a law which hears before it condemns with due

notice of hearing and that the notice and hearing should correspond.

As set forth in the Schenck affidavit (R. 103-5), the only notices given to petitioner prior to the hearing of February 8, 1943, (conducted by the Board consisting of the two officers of the Ordnance Department, Major Wayne L. Cockrell and Lieutenant-Colonel C. E. Herrstrom, and Lieutenant-Commander Ralph L. Chappell, U.S.N.R.), were the communications Exhibits E, G and H. Exhibit E (R. 106-7), the notice of December 30, 1942, merely states that the royalties "now being paid by the United States under Ruggle and Smith patent No. 2,173,044 are believed to be unreasonable or excessive." The letter of January 13, 1943, Exhibit G, is no more enlightening, as all that it states is "an opportunity will be afforded the company to present at a hearing any facts or circumstances which may have a bearing upon the royalties, if any, to be paid under Public Law 768—77th Congress." The real notice of hearing, the communication dated January 28, 1943, Exhibit H, merely makes reference to "the notice dated December 30, 1942, advising that the royalties being paid under Ruggles and Smith patent No. 2,173,044 are believed to be unreasonable or excessive."

As will be seen from a perusal of the "Transcript of Proceeding" (R. 61-86), the hearing was not devoted at all to the question of whether or not the royalty of $50 was unreasonable or excessive for a transfer case selling at approximately $100, or merely one-half of one per cent. Apparently realizing that such royalty could not be properly attacked on such grounds in view of the repeated admissions of Timken's patent attorney Gallagher that this was a "very reasonable royalty" (D. A. 83a, 90a), "a

nominal royalty'' (D. A. 89a), the hearing was devoted entirely to a consideration of the question of the validity of the said patent No. 2,173,044. But even as to this there was no evidence adduced and no advance notice that the hearing was to be devoted solely to the question of validity, nor notice of any prior art that would be considered at the hearing. The hearing consisted mainly of an attack on the validity of the patent made by mere argument of counsel for the interested party, The Timken-Detroit Axle Company.

The purpose of due notice as an essential of due process of law under the provisions of the Fifty Amendment is, of course, that a party, whose rights may be affected by a hearing, may be fully apprised of the subject matter to be examined into at the hearing so that such party may not be taken entirely by surprise.

The question whether the hearing, conducted by the Army-Navy Administrative Board and directed solely to validity of the patent, which obviously did not conform to the notice thereof, resulted in a denial to the Alma Motor Company of due process of law, is fully answered by the following language of this Court:

> '' * * * 2. The Federal question is whether, in that court, with such jurisdiction, the defendants were denied due process of law. Under the 14th Amendment they were entitled to notice and an opportunity to be heard. That necessarily required that the notice and the hearing should correspond, and that the relief granted should be appropriate to that which had been heard and determined on such notice. For even if a court has original general jurisdiction, criminal and civil, at law and in equity, it cannot enter a judgment which is beyond the claim asserted, or which, in its essential char-

> "The hearing provided for * * * gives an opportunity for possible amicable adjustment between the Government agency and the patent owner. * * * The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right * * *" (R. 119).

Where does one find in the law anything which justifies the assertion that the hearing provided for by the Act was "for possible amicable adjustment" or for "a conference," or where does one find any such indication in the notice of December 30, 1942, Exhibit E (R. 106, 107) or the letter of January 13, 1943, Exhibit G (R. 108, 109) or the Notice of Hearing, Exhibit H, dated January 28, 1943 (R. 109, 110), all of which use exactly the same language —the language of Public Law 768:

> "* * * the licensor * * * may * * * present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be determined, * * *"

The only advance information or indication obtainable from the formal notice of hearing of January 28, 1943 (Ex. H) as to the nature or scope of the hearing is that the royalties being paid under the patent "are believed to be unreasonable or excessive." No reason, however, for this belief is given in the notice, and certainly no indication of any belief that the patent was considered invalid, or that the mind of the Chief of Ordnance had been made up, and that it was his opinion that the patent was invalid, nor any indication of any evidence to show what such opinion was based upon. Even if it were true, as stated by the Court of Appeals, the hearing provided for

by the Act was for the purpose of giving an opportunity for possible amicable adjustment, or a "conference," a mere perusal of the Transcript of the Proceedings (R. 61 to 86, inc.). shows that no such opportunity was ever awarded petitioner or his counsel at the hearing. The statements made in the opinion of the Court of Appeals "that the results of the hearing "*do not bind,*" and are *not binding upon the patent owner* are utterly inexplicable in view of the action of the court in permitting its constitutional jurisdiction to be completely ousted by Royalty Adjustment Order No. W-3 and in directing the District Court to take no further action with respect to the judgment entered by the District Court long prior to the effective date of Order No. W-3. Can it be possible that, although the court considered the Order sufficiently binding to tie not only its hands, but the hands of the District Court, by some strange process of cerebration it reaches the conclusion that this does not result in binding the patent owner?

Point 5. As Royalty Adjustment Order No. W-3 was based on a holding of invalidity of a duly issued United States Letters Patent, which holding was predicated upon a mere opinion of an executive officer, Public Law 768, insofar as it authorized the issuance of said Order, is unconstitutional as a denial of due process of law.

We believe we have fully demonstrated that Public Law 768 and Royalty Adjustment Order No. W-3 result so manifestly in depriving a licensor of due process of law in contravention of the positive prohibitions of the Fifth

acter, is not responsive to the cause of action on which the proceeding was based.

"'Though the court may possess jurisdiction of a cause, of the subject matter, and of the parties, it is still limited in its modes of procedure, and in the extent and character of its judgments. It must act judicially in all things, and cannot then transcend the power conferred by the law. If, for instance, the action be upon a money demand, the court, notwithstanding its complete jurisdiction over the subject and parties, has no power to pass judgment of imprisonment in the penitentiary upon the defendant. If the action be for a libel or personal tort, the court cannot order in the case a specific performance of a contract. If the action be for the possession of real property, the court is powerless to admit in the case the probate of a will. . . . The judgments mentioned, given in the cases supposed, would not be merely erroneous: they would be absolutely void; because the court in rendering them would transcend the limits of its authority in those cases.' Windsor v. McVeigh, 93 U.S. 274, 282. See also Reynolds v. Stockton, 140 U.S. 254, 265-268. Barnes v. Railway, 122 U.S. 1, 14." *Standard Oil Co. of Indiana v. Missouri*, 224 U.S. 270 at 281-2.

The Court of Appeals in its opinion did not rule directly on the question of divergency between notice and hearing, but in discussing this phase of the case, stated

"• • • We think that the complaint in this respect misconceives both the nature of the hearing and the order which resulted therefrom. The hearing provided for is not in the nature of a complaint before a regulatory agency, but, instead, gives an opportunity for possible amicable adjustment between the Government agency and the patent owner. But the result does not bind the patent owner. By the express terms of the statute he is entitled

> to sue for what he believes himself to be entitled and the conclusions of the administrative officer are in no way binding upon him or the court. Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it. The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right and when its results are not binding upon the patent owner if he later seeks compensation through court action (R. 119).

There are a number of things wrong with the conclusions of the Court of Appeals as contained in the above quotation. The most glaring is the statement

> "Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it".

As the conclusion that "provision for hearing is not constitutionally required" is followed directly by the statement that "the 1910 Act, as amended, did not include it," it having been urged below that the Court of Claims Acts were the prototypes of Public Law 768 the Court below concluded that there was no necessity for a hearing under that Law. It may be that the Court was of the opinion that as Royalty Adjustment Order No. W-3 does not by its terms divest petitioner of its title to the Ruggles and Smith patent, petitioner was not deprived of its property. Perhaps the Court did not consider that the money held by the District Court to be due and payable to petitioner is property. Anything which interferes with an owner's right of possession to his property or his independent enjoyment of it comes within the purview of the prohibition of the Fifth Amendment. As stated by

this Court in its most recently decided case on this question:

> "The constitutional provision is addressed to every sort of interest the citizen may possess," *United States v. General Motors Corp.* (65 S. Ct. 357 at 359).

That this Court considers due process of law the right to possession of property, as well as to the title thereof is evidenced by the following:

> "Undoubtedly where life and liberty are involved, due process requires that there be a regular course of judicial proceeding which implies that the party to be affected shall have notice and an opportunity to be heard; so also where title, or *possession of property is involved.*" *Hagar v. Reclamation Dist.* 108 (111 U.S. 701).

Apparently the Court of Appeals by its statements that the result of the hearing did not bind the patent owners (R. 119) and that as "Alma, denied payment under the royalty agreement, is entitled to sue for whatever royalties it believes itself to be entitled and no administrative determination that it is not entitled to them will interfere in its suit" (R. 120), felt that as long as the law provides for any kind of a right to sue after a Royalty Adjustment Order is issued the order has no finality. Yet it gave the order a greater effect than the final judgment of the District Court and held the Public Law complied with due process of law. This holding is directly *contra* the following:

> "It never has been doubted by this Court, or any other so far as we know, that notice and hearing are preliminary steps essential to the passing of an enforceable judgment, and that they, together with a legally competent tribunal, having jurisdiction of

the case, constitute basic elements of the constitutional requirement of due process of law." *Powell v. Alabama* (287 U. S. 45).

The fact that the 1910 Act, as amended, did not contain any provision for a hearing has no bearing whatsoever upon the necessity for a hearing under Public Law 768. Although the proponents of Public Law 768 succeeded in convincing the Congress that the purpose of the Law was merely to supplement the 1910 Act, as amended, an analysis and comparison of the two statutes shows that there is nothing in common between them.

In the first place, the 1910 Act had solely to do with suits for infringement, based on *unlicensed* use or manufacture of patented inventions by the Government. By it the right of a patent owner theretofore limited to suit on an implied contract was extended by the Government consenting to be sued for a tort. The 1918 amendment to this Act further extended the patentee's rights by permitting suit against the United States in the Court of Claims for patent infringement by a contractor supplying material to the Government. Naturally, there was no provision in the 1910 Act, as amended, for any preliminary hearings because the Act clearly did not provide for any determination of the rights of any one by any Administrative or Executive Board. As there was no provision in the Act for any action of any kind by any Administrative Board, obviously the Act did not and could not contain any provision for a hearing by a non-existent Board. Nor did the 1910 Act, as amended, make any provisions for the issuance of any administrative orders, the result of which would deprive a citizen of any property right, for it provided for a suit in a duly constituted court of law.

The 1910 Act by its very title was

> "An act to provide additional protection for owners of patents of the United States, and for other purposes"

Public Law 768, however, has for *its* sole purpose not the "giving of additional protection for owners of patents," *Crozier v. Krupp* (224 U.S. 290, 302), but the taking away of vested rights of such owners as evidenced by what has happened to petitioner Alma's rights in the instant case. The assertion of the Court of Appeals in its opinion here that "provision for such a hearing is not constitutionally required;" is certainly contra the entire weight of authority and does not jibe at all with its own decision rendered May 27, 1943, *In Re Central R. Co. of New Jersey* (136 F. 2d. 633) from which we quote as follows:

> "* * * The right to notice and a hearing is one of ancient origin and by the due process clauses of the 5th and 14th amendments has been safeguarded to all against deprivation by the federal government and the states, respectively. The fact that the state had notice and appeared is not sufficient to satisfy the requirement of due process. It must also have been afforded an opportunity to be heard. Mr. Justice Field, in Windsor v. McVeigh, 1876, 93 U. S. 274, pages 277, 278, 23 L. Ed. 914, said: 'That there must be notice to a party of some kind, actual or constructive, to a valid judgment affecting his rights, is admitted. Until notice is given, the court has no jurisdiction in any case to proceed to judgment, whatever its authority may be, by the law of its organization, over the subject-matter. But notice is only for the purpose of affording the party an opportunity of being heard upon the claim or the charges made; it is a summons to him to appear and speak, if he has anything to say, why the judgment sought

> should not be rendered. A denial to a party, of the benefit of a notice would be in effect to deny that he is entitled to notice at all, and the sham and deceptive proceeding had better be omitted altogether. It would be like saying to a party: appear, and you shall be heard; and when he has appeared, saying: your appearance shall not be recognized, and you shall not be heard'." (at p. 639.)

How appropriate is the last sentence above quoted to the situation here, for when counsel for petitioner posed the question, that if the Royalty Adjustment Board were going to examine into the validity of the patent should it not be by the presentation of proper evidence, he was told by the Presiding Officer, Major Cockrell,

> "It is not proposed that there shall be any argument in this proceeding at all. * * * The opinion of the Chief of Ordnance is that the patent is invalid." (R. 73).

There is this difference, however, between the factual situation here and the suppositious case referred to in the above opinion. In the latter, it is assumed that the examining officer, in addition to refusing to hear the party, also refused to recognize his appearance. In the instant case, however, although an opportunity for a real hearing was not granted to petitioner or its counsel, the fact that petitioner appeared is, in effect, held by the court to justify the conclusion that Alma was granted a hearing such as would satisfy the requirements of due process of law, for the Court of Appeals stated:

> "Alma was notified of a proposed action under the statute with regard to its license agreement with Timken. It appeared by its President accompanied by counsel and was heard" (R. 119).

The Court further held:

Amendment that nothing more should be required. The facts in the present case, however, amply demonstrate the deprival of due process that resulted to petitioner even if the requirements of due notice and hearing had been complied with. It cannot be gainsaid that no evidence was introduced at the hearing bearing upon the question of validity of the patent nor opportunity afforded petitioner to contest the assertion of invalidity. The only thing that petitioner has ever had to go on with respect to the holding of invalidity was the statements of the Presiding Officer that "it is not proposed that there shall be any argument in this proceeding at all" and that "the opinion of the Chief of Ordnance is that the patent is invalid."

The situation in this case is, we submit, strictly analogous to that in *American School of Magnetic Healing v. McAnnulty* (187 U.S. 94), wherein this Court held a fraud order of the Postmaster General was not authorized by the statute under which the right to issue the order was claimed, because the law did not grant to the Postmaster General the power to issue fraud orders except in cases where there was evidence, that is, something more than the individual opinion of the Postmaster General. Here the only thing shown by the record to justify Order No. W-3 is an "opinion" of the Chief of Ordnance. There is not the slightest scintilla of evidence.

The matter of invalidating a patent has, of course, been before the Federal courts innumerable times. It is a cardinal rule of the patent law that when the validity of a patent is attacked by a defendant in an infringement suit, the defendant must plead, in advance of trial, any and all items of prior art upon which the defendant intends to rely to invalidate the patent in suit. This is

specifically provided for in R. S. 4920 (35 U.S.C. Sec. 69). This provision of the law, like the rule of estoppel is not a mere technicality of the patent law, but is based on sound, logical reasons. In the great majority of patent cases, the subject matter of the patent in suit is more or less technical so that drawings and disclosures of prior art structures require a great amount of time for study, analysis and comparison of the prior art structures with the structure of the patent. It is also a rule of the patent law that a patent is prima facie valid so that the plaintiff establishes a prima facie case of infringement by introducing the patent and evidence with respect to the infringing construction. From the very nature of a patent and its grant, this is also a purely logical common sense proceeding. How could petitioner know the belief expressed in the notice that the royalty is "unreasonable or excessive" was based in the instant case upon an "opinion" of the Chief of Ordnance that the patent was invalid? How could petitioner, not being aware of such opinion, proceed "to present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be fixed?" What reasons could petitioner in the present case have presented either in person or in writing to establish the validity of his patent? The grant of a patent after a due examination is prima facie evidence of its validity. This is a legal presumption fully recognized by the courts. The only legal way its invalidity upon prior art can be established, is by suit in a Federal Court of competent jurisdiction by competent evidence of the art, notice of which, fully identifying the art to be relied upon, must be given in advance.

Surely the two little words "if any" in the statute and the notice cannot be construed as a notice to a licensor,

or in the instant case to petitioner, that the validity of his patent is in question. Positive evidence of validity of any patent can never be given. All the patentee can do when the validity of his patent is assailed is to show the prior art relied upon does *not* invalidate.

It is not sufficient at law, that an order of an Administrative Board, the effect of which is to deprive a person of property rights, be based upon a mere opinion of an executive officer. This was fully considered by this court in *Morgan v. United States* (298 U. S. 468) and *Morgan v. United States* (304 U. S. 1). In both of these cases the statute under consideration had to do with the fixing of maximum rates by the Secretary of Agriculture for buying and selling live stock. The statute provided for the issuance of an order by the Secretary of Agriculture and contained a provision that the Order be issued after full hearing.

This Court in the first *Morgan* case stated:

> "• • • There must be a full hearing. There must be evidence adequate to support pertinent and necessary findings of fact. Nothing can be treated as evidence which is not introduced as such. • • • Facts and circumstances must not be considered which should not legally influence the conclusion."
> 298 U. S. 468 at 480.

The following language of the Court in the second case is particularly pertinent to the situation here presented:

> "• • • The right to a hearing embraces not only the right to present evidence but a reasonable opportunity to know the claims of the opposing party and to meet them.
>
> "No such reasonable opportunity was accorded appellants. The administrative proceeding was in-

itiated by a notice of inquiry into the reasonableness of appellant's rates. No specific complaint was formulated and, in a proceeding thus begun by the Secretary on his own initiative, none was required. "* * * In the absence of any report by the Examiner or any findings proposed by the Government, and thus without any concrete statement of the Government's claims, the parties approached the oral argument.

"Nor did the oral argument reveal these claims in any appropriate manner. The discussion by counsel for the Government was 'very general.' * * * And the appellants had no further information of the Government's concrete claims until they were served with the Secretary's Order."

Holding that the hearing was fatally defective and the Order of the Secretary of Agriculture invalid, Justice Hughes concluded:

"For, as we said at the outset, if these multiplying agencies deemed to be necessary in our complex society are to serve the purposes for which they are created and endowed with vast powers, they must accredit themselves by acting in accordance with the cherished judicial tradition embodying the basic concepts of fair play."

Although Public Law 768 does make provision for a hearing at the request of the licensor, it does not, as did the Act under consideration in the *Morgan* case, provide the hearing should be a "full hearing." But the question necessarily arises why provide for any hearing at all if it is not to be a full one? As there can be no question at all that Royalty Adjustment Order No. W-3, which held that petitioner should have nothing, was based upon a holding of invalidity of the patent, and as the Court of Appeals' ruling deprived petitioner, not only of his con-

stitutional right of trial on the merits of its claim against respondent Timken, but also had the legal effect of setting aside the judgment of the District Court which had become final, petitioner certainly was deprived of property. Obviously, therefore, in a situation such as the present, the statement of the Court of Appeals that provision for a hearing is not constitutionally required is *contra* the entire weight of authority. If this ruling of the Court should be permitted to stand as a precedent, the constitutional prohibition against depriving a person of property without due process of law has and will become meaningless. The situation here is on all fours with that before the Court in the second *Morgan* case at 304 U. S. 1. "No reasonable opportunity was ever accorded" petitioner "to know the claims" of the War Department or "to meet them." No evidence was introduced. No "findings proposed" either before or after the hearing. We do not believe that this Court has ever had presented for its consideration any law that so flagrantly disregards the due process of law requirements as Public Law 768.

We have already discussed the fact that if Public Law 768 authorized the issuance of Royalty Adjustment Order No. W-3, based upon a holding that a duly issued United States patent is invalid, which holding is predicated upon the mere opinion of an executive officer of the Government. Public Law 768 is unconstitutional as a usurpation of a purely judicial prerogative. That the authority to hold a patent invalid resides solely in the courts of the United States is firmly established:

> "The only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the

patent. *Moore v. Robbins*, 96 U. S. 530, 533; *United States v. Am. Bell Telephone Co.*, 128 U. S. 315, 364; *Michigan Land and Lumber Co. v. Rust*, 168 U. S. 589, 593."

McCormick Harvesting Machine Co. v. Aultman, 169 U. S. 606 at 608.

Must the rule of law above quoted be modified to render the right to annul a patent dependent upon an "opinion" of the Chief of Ordnance of the War Department?

Point 6. Neither Public Law 768 nor Royalty Adjustment Order No. W-3 is a constitutionally valid exercise of the Federal right of eminent domain.

The Court of Appeals in its opinion here, after first discussing the Act of 1910, as amended in 1918, stated the constitutionality of this legislation has been upheld, citing *Crozier v. Krupp*, 224 U. S. 290, 307; *Richmond Anchor v. United States*, 275 U. S. 331. The Act of 1910, as we have pointed out, is entirely different and distinct from Public Law 768. The 1910 Act could very properly be held to be an exercise of the right of eminent domain because it very definitely had to do with the use of a patented invention to produce physical objects that in turn were clearly devoted to a public use, namely, guns and gun carriages in the *Crozier* case and cargo beams in the *Richmond* case. Public Law 768, however, has nothing to do with the physical objects which are capable of use for a public purpose, but has to do solely with money due by one private person to another under a license contract. The Circuit Court of Appeals stated:

> "What we have here is a taking of private property for public use. The property involved is the patent owner's royalty rights under the license with the manufacturer. No one doubts, of course, the power of the Government to take private property for public use if the constitutional requirements for compensation are met" (R. 116, 117).

While we agree with the last sentence of the above quotation, we most emphatically challenge the correctness of the first sentence thereof. The opinion proceeds:

> "The necessity for the taking in a particular instance is for the legislative body, not the courts, assuming that the purpose is one for which the power might be exercised. North Laramie Land Co. v. Hoffman, 268 U. S. 276 (1925); Joslin Co. v. Providence, 262 U. S. 668 (1923); Bragg v. Weaver, 251 U. S. 57 (1919)" (R. 117).

Each of the cases cited by the Court concerning necessity for the taking being for the legislative body to decide had to do solely with the condemnation of real property which was directly covered by the legislative act. The legislative acts considered by the court in each of the cited cases do not have the slightest analogy to Public Law 768 as it makes no determination or statement at all of any necessity for the taking of the property of any inventor in any particular instance. The law merely says that it is "to aid in the successful prosecution of the War." And then proceeds in general terms to make the act applicable to the sequestration, not of any *invention*, nor any *physical property*, but merely to *money* due under a license contract relating to an invention. The act signally fails to prescribe any *public* use for such money, or any necessity for the Government to have the

money, or that the money be put to any use that would "aid in the successful prosecution of the War." The Royalty Adjustment Order No. W-3, issued in the instant case, specifically directs that the money which the licensee is ordered not to pay to the petitioner is to be paid "over to the Treasurer of the United States." There is no provision for any further disposition of the money, which leaves no other assumption, but that the money is to be held in escrow until some indeterminate future time when Congress might legislate concerning its disposition. How can this by the wildest stretch of the imagination be properly characterized as "a taking of private property for public use"?

The Court of Appeals' opinion, proceeds in an attempt to demonstrate that the taking provided for by Public Law 768 is a public use, states that the subject matter of the act is clearly within the war power of Congress (R. 117), and reaches the conclusion "that the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power." We assert that Public Law 768 is not a constitutional exercise of the power of eminent domain because it manifestly does not comply with the essential requirement that the property expropriated by the Government be devoted to a public use. We know of no more succinct and pertinent exposition of the type of property that is subject to the right of eminent domain than the following:

> (P. 651) "Every species of property which the public needs may require, and which government cannot lawfully appropriate under any other right, is subject to be seized and appropriated under the right of eminent domain. Lands for the public

ways; timber, stone, and gravel with which to make or improve the public ways; buildings standing in the way of contemplated improvements, or which for any other reason it becomes necessary to take, remove, or destroy for the public good; streams of water; cor-

(P. 652) porate franchises; and generally, it may be said, legal and equitable rights of every de-

scription are liable to be

(P. 653) thus appropriated. From this statement, however, must be excepted money, or that which in ordinary use passes as such, and which the government may reach by taxation, and also rights in action, which can only be available when made to produce money; neither of which can it be needful to take under this power.[1]" *Cooley's Constitutional Limitations*, Fifth Edition, at 651, 652, 653.

It is to be noted particularly that Dean Cooley specifically exempts from the power of eminent domain the right to appropriate money.

We have already discussed the following sentence of the Court:

(P. 651) [2]*People v. Mayor, &c of New York*, 32 Barb. 102.
" [3]*Wheelock v. Young*, 4 Wend. 647.
" [4]*Wells v. Somerset, &c R. R. Co.*, 47 Me. 345.
" [5]*Gardner v. Newburg*, 2 Johns. Ch. 162.
(P. 652) [1]*Piscataqua Bridge v. New Hampshire Bridge*, 7 N. H. 35.
(P. 653) [1]"Taking money under the right of eminent domain, when it must be compensated in money afterwards, could be nothing more nor less than a forced loan, only to be justified as a last resort in a time of extreme peril, where neither the credit of the government nor the power of taxation could be made available. It is impossible to lay down rules for such a case, except such as the law of overruling necessity, which for the time being sets aside all the rules and protections of private right, shall then prescribe."

> "The provision of the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 120).

and have shown that it seems to indicate a misconception by the Court of the true meaning of the constitutional prohibition of the Fifth Amendment with respect to due process. This enunciation of the Court also appears to us to show a lack of proper comprehension of the Fifth Amendment with respect to "the taking of private property for public use" which the amendment specifically states shall not be done "without just compensation." The Court of Appeals held "the provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation" (R. 119). The cases which the Court cites in support of this holding all had to do with the Act of 1910, as amended in 1918. There is a great difference between the Act of 1910 and Public Law 768 in this respect, as well as in its other provisions to which we have already directed attention. The 1910 Act provided that the recovery of the patent owner in the Court of Claims was to be "his reasonable and entire compensation," while Public Law 768 stated that the recovery shall be:

> "fair and just compensation * * * taking into account conditions of wartime production."

The Fifth Amendment provides for "just compensation" which means entire compensation and nothing else.

Here again if Public Law 768 is to be interpreted in the light of the 1910 and 1918 Acts and the decisions of this Court in support of the latter, we refer to *Richmond*

Screw Anchor Co. v. United States, supra, wherein this Court held:

> "We must presume that Congress in the passage of the Act of 1918 intended to secure to the owner of the patent the *exact equivalent* of what it was taking away from him." 275 U. S. 331 at 345.

Otherwise as the Court held as to the 1918 Act

> "It is an attempt to take away *from a private citizen his lawful claim for damage to his property by another private person* which but for this Act he would have against the private wrongdoer." 275 U. S. 331 at 345.

There can be no *"exact equivalent"* of 50c, but 50c, so the *"fair and just compensation"* which Public Law 768 provides for is manifestly not intended to be the payment of an exact equivalent or even just compensation within the meaning of the Fifth Amendment because the Law directs the fair and just compensation, "IF ANY," eventually to be awarded by the Court of Claims must take "into account conditions of wartime production." Therefore, even if the Governemnt in the Court of Claims should not be successful in an attack on the validity of the patent, the defense not open to the licensee Timken, and could not therefore justify the holding of Order No. W-3 that "fair and just compensation" is $0.00—nothing, the Law not only authorizes but persuades it to reduce the 50c royalty by taking "into account the conditions of wartime production." But why should conditions of wartime production justify a reduction of the royalty rate and the impairment of the contract? Every time the invention is used, the Government and the taxpayers

obtain its benefits and advantages. Obviously if 50c, admittedly a very low royalty, is a fair rate of pay for the savings effected and advantages accruing from the use of one transfer case, how can a hundred thousand uses make the rate less fair or unreasonable or excessive? The greater use as a matter of simple arithmetic compels the opposite conclusion—that the advantages were one hundred thousandfold. The real motive underlying Public Law 768 and the only result achieved by it was to single out inventors and by a piece of flagrant class legislation permit bureaucratic authority to say your annual income shall not exceed a certain sum.* As Congress refused to pass such legislation of general application at the behest of the President why Public Law 768 which affects inventors only—the class of citizens above all others who have contributed most to, and who are most responsible for, the truly miraculous progress made by this Nation in furtherance of the war effort?

The leading case under the just compensation clause is doubtless *Monongahela Navigation Co. v. United States*, 148 U. S. 312, and the language of Justice Brewer in that case so completely analyzes and explains the meaning of the expression "just compensation" in the Fifth Amendment that we quote it as follows:

> "The language used in the Fifth Amendment in respect to this matter is happily chosen. The entire amendment is a series of negations, denials of right or power in the government, the last, the one in point here, being 'Nor shall private property be

*(This is what happened in *Coffman v. Breeze, et al., supra*, where the Royalty Adjustment Orders W-9 and N-7 limited the amount of royalties to be paid the inventor Coffman to $50,000 per year.)

taken for public use without just compensation.' The noun 'compensation,' standing by itself, carries the idea of an equivalent. Thus we speak of damages by way of compensation, or compensatory damages, as distinguished from punitive or exemplary damages, the former being the equivalent for the injury done, and the latter imposed by way of punishment. So that if the adjacent 'just' had been omitted, and the provision was simply that property should not be taken without compensation, the natural import of the language would be that the compensation should be the equivalent of the property. And this is made emphatic by the adjective 'just.' There can, in view of the combination of those two words, be no doubt that the compensation must be a full and perfect equivalent for the property taken."

This Court very recently interpreted the just compensation clause of the Fifth Amendment in *United States v. General Motors Corp.*, 65 S. Ct. 357. We quote the following as particularly pertinent to the situation here:

"When the sovereign exercises the power of eminent domain it substitutes itself in relation to the physical thing in question in place of him who formerly bore the relation to that thing, which we denominate ownership. In other words, it deals with what lawyers term the individual's 'interest' in the thing in question. That interest may comprise the group of rights for which the shorthand term is 'a fee simple' or it may be the interest known as an 'estate or tenancy for years,' as in the present instance. The constitutional provision is addressed to every sort of interest the citizen may possess" (65 S. Ct. 357 at 359).

In *United States v. Miller*, 317 U. S. 369, this Court in an unanimous opinion by Mr. Justice Roberts summed up the rationale of the cases as follows:

> "The Fifth Amendment of the Constitution provides that private property shall not be taken for public use without just compensation. Such compensation means the full and perfect equivalent in money of the property taken. The owner is to be put in as good position pecuniarily as he would have occupied if his property had not been taken."

The conclusion of the Court of Appeals that Public Law 768 is a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" does not stand up upon analysis. Likewise, the conclusion reached by the court that the situation in the present case, or "what we have here is a taking of private property for public use."

Let us first consider the power of eminent domain.

The right of eminent domain is defined as follows:

> "Eminent domain is the right or power of a sovereign state to appropriate private property to particular uses, for the purpose of promoting the general welfare. It embraces all cases where, by authority of the state and for the public good, the property of the individual is taken, without his consent, *for the purpose of being devoted to some particular use*, either by the state itself or by a corporation, public or private, or by a private citizen." *Lewis Eminent Domain*, 3rd Ed. Vol. 1, Sec. 1.

As the right is exercised by the Government, it is subject to certain limitations which were clearly and succinctly set forth by Chief Justice Taney as follows:

> "There are, without doubt, occasions in which private property may lawfully be taken possession of or destroyed to prevent it from faling into the hands of the public enemy: and, also, where a

military officer charged with particular duty may impress private property into the public service or take it for public use. Unquestionably in such cases, the Government is bound to make full compensation to the owner; but, the officer is not a trespasser. *But, we are clearly of the opinion that in all of these cases the danger must be immediate and impending; or, the necessity urgent for the public service, such as will not admit of delay,* and where the action of the civil authority would be too late in providing the means which the occasion calls for. It is impossible to define the particular circumstances of *danger or necessity* in which this power may be lawfully exercised. Every case must depend upon its own circumstances. *It is the emergency that gives the right, and the emergency must be shown to exist before the taking can be justified.*" *Mitchell v. Harmony,* 54 U. S. 115, 126, 134; 13 How. 115, 14 L. Ed. 75.

Since *Mitchell v. Harmony* therefore the rule of law has been consistently followed in all cases involving the exercise of the right of eminent domain that there must first be a determination or finding of a public necessity.

Public Law 768 does not prescribe any means for any determination of necessity by any one, nor does it in the slightest degree, as we shall show, provide for the exercise of the Federal power of eminent domain. It makes no pretense of legislating to take care of any danger,—"immediate or impending" or any "necessity urgent for the public service as will not admit of delay" (*Mitchell v. Harmony, supra*). Indeed, the very provisions of the Act, and Order No. W-3 issued under it in the present case, show the wide open vulnerability of the Act as obnoxious to constitutional validity. As we have shown, the Act by its terms signally fails to set forth anything that in the slightest degree could be interpreted as any finding of

necessity. Likewise the Act is absolutely barren of any provision for any finding of necessity by any one, and indeed barren of any provision for a *finding* of any kind by any one. Instead the Act is unique and, we submit, without precedent, in the basic condition it establishes for its application in any and all cases to which its provisions are to be applied,—the mere belief of the governmental head or agency that royalties being paid by one private party to another under a patent license contract are unreasonable or excessive. The specific language of the Act in this respect is as follows:

> "* * * That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee" (R. 56).

Nothing, we submit, could more clearly illustrate the frailty of the law to constitute a proper exercise of the right of eminent domain in the light of the great weight of authority and under the decisions of this Court. By the very language of the Act if, as found by the Third Circuit Court of Appeals, it is an exercise of the power of eminent domain by Congress, the exercise of such power is made entirely dependent upon a mere "belief" of the head of a Governmental Department or, in other words, an "opinion" of the head of the Governmental

Department that certain royalties are "unreasonable or excessive." There is no provision in the Act for the submission of any evidence, for the making of any finding based upon such evidence, no proper hearing, no proper notice of hearing, no finding as a result of such hearing and no real appeal from such hearing. Instead the Act specifically denies the constitutional right of a licensor to enforce his contract in the constitutional courts, and, as happened in the instant case, even prevents him from enforcing a judgment obtained in such courts or proceeding with a duly perfected appeal therein, but relegates him to the institution of an entirely new suit against a new and different defendant, the United States, in a legislative court, the Court of Claims, with the denial of the right of trial by jury and the granting to the new defendant—a new defense. Meanwhile depriving the licensor of the possession of his property, the money due under his contract, and in which in the instant case there is no public interest, nor public use nor even a possibility of any public use thereof,—and all of this predicated upon a mere opinion of a governmental department head.

It is not necessary to indulge in any speculation, but merely to consider the situation with respect to the Government's need or urgency for the use of the transfer cases supplied to it by respondent, Timken. Manifestly, Timken was entirely free under its license to make, use and sell such transfer cases to the Government and the latter had the free right to use them. Therefore, as far as the use of the invention is concerned, there was no impending danger or urgent necessity. The application of Public Law 768 to the present case clearly demonstrates, therefore, that the law is not an exercise of the right of eminent domain because it clearly does not grant to the Government the right to use something that it otherwise

could not use. The application of the Law in the present case shows it to be absolutely foreign to our system of constitutional Government, as it gives the Government, not the right to use property otherwise unavailable to it, but authorizes it to step between two contracting parties to vitiate the contract freely and in good faith entered into by them and to seize money due under the provisions of the contract.

Least of all is the *money* so seized taken "for the public good * * * for the purpose of being devoted to some particular use," *Lewis Eminent Domain, supra.*

Point 7. Royalty Adjustment Order No. W-3 is invalid because the Order affected the payment of royalties not charged or chargeable to the United States and hence not within the purview of Public Law 768 and the latter is unconstitutional as authorizing the issuance of such Order in contravention to the due process of law.

The District Court in its opinion said:

> "* * * I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here" (R. 36).

Judge Kirkpatrick's conclusion was much more sound than the belief of the Chief of Ordnance and much more correct than the holding of the Court of Appeals that "what we have here is a taking of private property for public use." It is perfectly absurd to contend that there is a sufficient public interest in the money which Timken owes Alma to warrant a denial of such important civil rights as are guaranteed by the constitutional Bill of

Rights. Much ado was made in brief below about increased cost of the war because of excessive, unreasonable, exhorbitant royalties. That the admittedly very low and reasonable royalty of one-half of one per cent, or 50¢ on a transfer case costing $100 is excessive, exhorbitant or unreasonable is so patently ridiculous as to need no further comment. Even if the Government were compelled to pay the full royalty on the less than 100,000 transfer cases involved in this litigation, the resultant cost to the taxpayers of the United States—less than $50,000—is such an almost infinitesimal sum, when compared with the astronomical figures of the war costs, as to render puerile any arguments that can be advanced here concerning increase in the war costs.

But, by the admissions of Timken's own patent attorney, no part of any of this cost has been charged to the Government. With respect to any and all transfer cases for which Timken had received payment prior to July 28, 1943, the date of Royalty Adjustment Order No. W-3, and which royalties Timken on the date of the notice of December 30, 1942, had not paid to Alma, there could be no public interest in these, because Timken had already received payment for them and furthermore is not required by the Order to reduce its contract price to the Government thereon (Order W-3, par. 4, R. 95).

As we have pointed out, nothing better illustrates the vulnerability of the law than the fact that the "prime mover" provided for by the Act to set in motion the issuance of a royalty adjustment order of far-reaching power and effect is the belief or opinion of the head of a Governmental Department. There is no provision in the Act that requires any preliminary investigations to be instigated nor, as we have pointed out, no provision for any

findings to be made. Indeed, the Act makes no provision for any determination as to whether or not a contemplated royalty adjustment order is directed to subject matter that falls within the purview of the Act.

For, although Section 7 thereof specifies the subject matter to which the Act shall apply, as follows:

> "This act shall apply to all royalties directly or indirectly charged or chargeable to the United States: * * *"

the Act makes no provision at all for any determination by anyone as to whether or not the royalties affected by a contemplated order have either ever been charged or are chargeable to the United States. Surely the Act to be valid should have contained a provision to the effect that before any written notice such as provided for by the Act is given, the head of the Department concerned should make a proper investigation to determine whether "the royalties, the rates, or amounts of which are believed to be unreasonable or excessive" have been charged or are chargeable to the United States.

Perhaps it may seem that it should not be necessary to include any such provision as this in the Act on the assumption that no responsible head of a Governmental Department would issue an order under the Act without first determining whether or not the royalties to be affected by the order had either been charged or were chargeable to the Government. Of course, the words "chargeable to the Government" are not intended to mean past potentiality—but present potentiality. In other words, it does not mean that they could have been charged in the past if, as a matter of fact, they were not, but the words "chargeable to" were obviously included

in the Act to take care of the situation wherein the royalties to be affected by an order are ones which have not as yet been actually charged to the Government but which would be chargeable at some future date.

The above discussion might seem far-fetched were it not for the fact that Royalty Adjustment Order No. W-3 in the present case obviously was issued without any investigation by the Chief of Ordnance or anyone else in the War Department to find out what royalties, if any, on the transfer cases supplied by Timken to the Government and which were due and payable to Alma had, in fact, been charged either directly or indirectly or were chargeable to the United States. There is nothing in the record to show that the prime condition precedent existed, namely, that the royalties involved had been charged or were chargeable to the Government. There is no finding of any kind in the record by the Chief of Ordnance or the Royalty Adjustment Board. Insofar as the latter is concerned, there is nothing to indicate any disposition on the part of the Board to do anything but carry into effect the opinion and will of the Chief of Ordnance without cavil. Indeed, the Board's eagerness in this respect was made quite manifest by the dictatorial pronouncements of the Presiding Officer of the Board at the hearing that there was to be no argument about the matter. The record, however, contains a direct and positive averment to the contrary, in the affidavit of Timken's patent attorney Gallagher, filed in support of Timken's motion to dismiss petitioner's appeal, which stated that:

> ... * * * all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of Ruggles and Smith patent 2,173,044,

> have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; * * *" (R. 60).

Obviously, if royalties were charged only on T-43-P-1 and T-43-V-1 transfer cases, no royalties were charged to Timken on any of the T-32-13 or T-79 transfer cases enumerated in the Schenck affidavit (R. 105). Equally obviously, if Timken had received payment from the Government for any of the latter transfer cases by July 28, 1943, the date of Order No. W-3, the transaction between Timken and the Government as to them was a closed book on that date. And as to them the decision of the Court of Appeals herein closed the book to petitioner. Moreover, unless the money due petitioner as to them was paid into the Treasury petitioner would have no standing in a suit in the Court of Claims for it could not show by a petition to be filed therein that the Government was or is withholding any money alleged to be due petitioner.

Timken would be in no position to attempt to revise its charges upward to the Government for the transfer cases which it sold and had been paid for to increase such charges by the amount of the royalty of 50¢ per transfer case. By the same token, as Timken never charged the royalty to the Government Timken could not reduce its charges to the Government in any event, and certainly not on cases sold and paid for prior to such date, as this is specifically exempted by the provisions of Paragraph 4 of the Order, as we have already pointed out.

Even in the absence of the averments in the Gallagher affidavit the facts are quite clear. Timken wished to

avoid paying the royalty to Alma which it contracted to pay. The record in the Court of Appeals shows that although the contract provided Timken should pay royalty on any and all transfer cases dominated by the claims of the Ruggles and Smith patent, Timken for some unknown reason concluded it would pay royalties only on transfer cases which came under the terms of Claims 1 to 4 of the patent. For some equally inexplicable reason, it assumed itself to be beyond the application of the principle of law that a licensee is estopped to deny the validity of a patent under which a licensee is licensed. Although its counsel admitted in Court that the T-32-13 cases and the T-79 cases were dominated by certain of the claims of the Ruggles and Smith patent (D.A., pp. 152a-153a), it refused to pay royalties to Alma on any of these transfer cases and attempted to urge a construction of the claims of the patent that would limit their scope to an extent such that the claims would be held by the Court not to cover the particular cases in issue. Having taken such position, Timken was perforce obliged not to charge any royalties on these cases because if it were discovered that Timken was charging the royalty thereon to its customers, its position in the trial in the District Court case would have been considerably weakened, if not made entirely untenable.

It therefore assumed the full responsibility for the payment to Alma of any and all royalties that would be held to be owing by it to Alma.

We submit it is perfectly clear from the foregoing that there is and can be no possible public interest in the royalties which Timken owed, and should have paid to, Alma: (a) in the first place because Timken fully assumed the liability and responsibility for their payment; (b) in the second place because none of these royalties were ever charged to or are now chargeable to the United

States; (c) because as to all of the royalties already adjudged by the District Court to be due and payable by Timken to Alma and as to any and all of the royalties that may be due and payable, depending upon the outcome of Alma's appeal to the Third Circuit Court of Appeals, Timken obviously already had received payment for them before July 28, 1943.

We submit it to be equally clear that the issuance of Royalty Adjustment Order No. W-3 and the upholding of its validity by the Third Circuit Court of Appeals has not, and will not have, save the taxpayers of the United States one single penny but has merely resulted in depriving petitioner Alma of its property, the money due to it by Timken under the license contract—all to the impoverishment of Alma and the unjust enrichment of Timken. So if Public Law 768 is not invalid and unconstitutional for any of the many reasons we have hereinbefore fully discussed, it would be invalid and unconstitutional on the grounds that, in the present case, it has been employed to accomplish no other result than that of depriving Alma of its private property for the unjust enrichment of Timken.

CONCLUSION

It is therefore respectfully submitted that the decision of the Third Circuit Court of Appeals be reversed; that Royalty Adjustment Order No. W-3 be held invalid and that Public Law 768, insofar as it authorized the issuance of said Order,—and also because Public Law 768 has so many manifestly glaring and constitutionally obnoxious defects,—be held unconstitutional in the following respects:

(1) That it was used as a means to usurp and oust the constitutional jurisdiction of the Federal Courts;

(2) That it was used as means to vitiate and render nugatory a prior judgment of the Federal District Court;

(3) That it is arbitrarily and capriciously retroactive in character;

(4) That it resulted in depriving a person of property without due process of law (a) by failing to give the person so deprived of property due notice and hearing; and (b) by failing to give such person a proper appellate review in that the sole and exclusive remedy provided for by the law is by way of suit against a new defendant, the United States, in the non-constitutional Court of Claims with a new defense not available to the person, primarily liable under a civil contract;

(5) That it was not a proper exercise by Congress of any of its granted powers and specifically the patent

power, the war power or an exercise of the right of eminent domain;

(6) That it does not constitute an exercise of the right of eminent domain because it does not (a) provide for the taking of private property for public use, but instead provides for the sequestration of mere money; (b) provide for any showing of necessity for such taking, or (c) provide for just compensation to the owner of the property, and

(7) That it results in the taking of private property from one private person and turning it over to another private person for the unjust enrichment of the latter.

Wherefore, petitioner respectfully prays that this case be remanded to the Third Circuit Court of Appeals with directions to such Court to vacate its Order of August 7, 1944, herein, as amended October 2, 1944; to proceed to hear petitioner's appeal on its merits and for such other action as in the opinion of this Court is necessary and proper in the premises.

Respectfully submitted,

I. Joseph Farley,
Counsel for Petitioner.

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No. 606

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CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

ALMA MOTOR COMPANY,
Petitioner,

vs.

THE TIMKEN-DETROIT AXLE COMPANY

AND

THE UNITED STATES OF AMERICA

APPENDIX TO PETITIONER'S BRIEF

Containing

1. PUBLIC LAW 768—77TH CONGRESS.
2. HEARINGS BEFORE COMMITTEE ON PATENTS, 77TH CONGRESS ON H. R. 7620 (PUBLIC LAW 768).
3. REPORT NO. 2602 OF HOUSE OF REPRESENTATIVES COMMITTEE ON PATENTS.
4. REPRINT FROM PAGES OF CONGRESSIONAL RECORD, VOL. 88, NO. 178, PP. 8482 TO 8484 INC. PROCEEDINGS IN SENATE, THURSDAY, OCTOBER 15, 1942.
5. REPRINT FROM PAGES OF CONGRESSIONAL RECORD, VOL. 88, NO. 184, PP. 8823 TO 8825 INC. PROCEEDINGS IN HOUSE, THURSDAY, OCTOBER 22, 1942.

Eclipse Composition Company 243 W. Larned St. Detroit

[PUBLIC LAW 768—77TH CONGRESS]

[CHAPTER 634—2D SESSION]

[S. 2794]

AN ACT

To provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however*, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against

the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable

directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

Approved, October 31, 1942.

2

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

HEARINGS

BEFORE THE

COMMITTEE ON PATENTS
HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

ON

H. R. 7620

A BILL TO PROVIDE FOR ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES, AND FOR OTHER PURPOSES

OCTOBER 13, 14, 15, 1942

UNITED STATES
GOVERNMENT PRINTING OFFICE
78198 WASHINGTON : 1942

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ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

TUESDAY, OCTOBER 13, 1942

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PATENTS,
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., Hon. Fritz G. Lanham presiding.

Mr. LANHAM. The committee will come to order. We have met to consider a bill introduced by Mr. Kramer, chairman of this committee, H. R. 7620, which was introduced in the House on September 30, 1942.

An identical bill was introduced in the Senate by Senator Reynolds on September 21, 1942, and is Senate 2794.

We all regret very much that the illness of our chairman prevents his attendance. He has asked me to preside at the hearings in his absence and I am sure we are all very hopeful that he will soon be entirely restored to health and strength.

This bill was sent to the Speaker of the House of Representatives with an accompanying letter from the Secretary of War. The bill will be included in the hearings at this point, as well as the letter from the Secretary of War.

(H. R. 7620 is as follows:)

[H. R. 7620, 77th Cong., 2d sess.]

A BILL To provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever an invention described in and covered by a patent, or an application for patent, of the United States shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of

contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective two days after the mailing thereof.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention described in and covered by a patent or an application for a patent, whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid by the Government for such manufacture, use, sale, or other disposition of such invention, or by way of refund to the Government if already paid by it to the licensee.

SEC. 5. The authority and discretion conferred by this Act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

SEC. 6. For the purposes of this Act and the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the manufacture, use, sale, or other disposition of an invention described in and covered by a United States patent or in an application for patent therefor, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or disposition for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or materials deliverable to the Government from and after the date of the approval hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination hereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of a patent or patent application covering an invention manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

Mr. LANHAM. The letter bears date September 21, 1942, and is signed by Henry L. Stimson, Secretary of War. I will read the letter. [Reading:]

WAR DEPARTMENT,
Washington, September 21, 1942.

THE SPEAKER, HOUSE OF REPRESENTATIVES.

DEAR MR. SPEAKER: There is inclosed a draft of a bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, which the War Department recommends be enacted into law.

The purposes of the proposed legislation are:

(1) To require approval and establishment by the head of the Government department concerned of the rates of royalties under patent licenses payable by manufacturers of articles manufactured, used, sold, or otherwise disposed of for the Government.

(2) To prevent payment of excessive royalties under patent licenses by manufacturers to patent owners on articles manufactured, used, sold or otherwise disposed of for the Government.

(3) To prescribe the legal remedy of patent licensors with respect to disputed royalties and establish the procedure for recovery thereof.

(4) To clarify existing legislation, namely, the act of June 25, 1910 (36 Stat. 851), as amended with respect to contractors and subcontractors manufacturing, using, selling, or otherwise disposing of inventions for Government use.

(5) To authorize the head of the Government department concerned to compromise and settle claims for the manufacture, use, sale, or other disposition by or for the Government of patented articles.

The act of June 25, 1910 (36 Stat. 851), as amended by the act of July 1, 1918 (40 Stat. 705), provides as follows:

"That whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however*, That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further*, That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise; *And provided further*, That the benefits of this Act shall not inure to any patentee who, when he makes such claim, is in the employment or service of the Government of the United States, or the assignee of any such patentee; nor shall this Act apply to any device discovered or invented by such employee during the time of his employment or service.

In a number of instances, manufacturers with whom contracts for the production of articles and materials for the War Department have been placed were found to be manufacturing under licensing agreements entered into during peacetime with the owners of patents covering the desired articles or materials, binding such manufacturers to pay specified royalties. Under peacetime conditions and for the quantities then being produced, the royalty payments were fair and reasonable, but when applied to the enormous quantities needed for the prosecution of the war such royalty rates are regarded in some cases as exorbitant, excessive, and unfair.

While the situation has been somewhat relieved in a number of instances by negotiations between representatives of the War Department and the owners of patents, this method has not been entirely successful, because patent owners are legally entitled to require observance of existing contract obligations, particularly where license agreements have been in effect for some time, and some patent owners are insisting upon payment of the high royalties specified in their license agreements.

There also is some doubt as to whether the provisions of the act of June 25, 1910 as amended, are sufficiently broad to cover manufacturers or users operating under license agreements and their subcontractors and sublicensees, and to afford protection against infringement suits in the event of the manufacture, use,

sale, or other disposition under such conditions of patented articles on orders and under contracts with the Government. To eliminate uncertainty and properly and fully to protect such manufacturers and users, including subcontractors and sublicensees, the proposed legislation is deemed necessary and desirable.

It is likewise deemed necessary to make the legal remedy against the Government exclusive, thus eliminating constant danger of litigation and controversy over royalty payments between patent owners and those producing, using, selling, or otherwise dealing with patented articles for or on behalf of the Government. There is necessity also for authority to enter into agreements with owners or licensees of inventions in full settlement and compromise adjustment of their claims arising from the production, use, sale, or other disposition of patented articles on behalf of the Government, thus obviating the necessity of suits in the Court of Claims against the Government. The draft of bill provides for such adjustments.

The proposed legislation is designed to meet the existing situation and to aid in expediting production for the prosecution of the war.

The War Department is unable to estimate the fiscal effect of enactment of the proposed legislation. However, it is believed that a very considerable saving in procurement cost to the Government will result from enactment of the bill.

Accordingly, early enactment of the draft of bill enclosed is earnestly recommended by the War Department.

The Bureau of the Budget advises that there is no objection to the submission of this proposed legislation for the consideration of the Congress.

Respectfully,

HENRY L. STIMSON,
Secretary of War.

That letter was dated September 21.

On that very day Mr. Reynolds introduced the bill in the Senate and Mr. Kramer on September 30 introduced the bill in the House.

From statements that I have heard from many who are interested in this bill, it seems that there is general accord with the principal purposes of the bill, though I think exception has been taken to some of its provisions.

The study of the bill that I have been able to give in the very limited time at my disposal has convinced me of the wisdom of the purpose of it, and has also convinced me that there are a few incidental respects in which it might need amendment.

There have been some very interesting articles recently in the Atlantic Monthly. A month or two ago there were two articles, one by Mr. Thurman Arnold, and one by Mr. Lawrence Langner. Each of those distinguished gentlemen has appeared before this committee.

There is an article by another gentleman in the current number of the Atlantic Monthly which you might call more or less an arbiter between the conflicting views of Mr. Arnold and Mr. Langner and I notice in his article he makes the statement which has been iterated and reiterated before this committee many times, that insofar as authority to use any patent is concerned, and especially in time of war, that under the act of 1918 the Government already has that power.

The purpose of this legislation, if I understand it, is merely in accordance with that authority under the act of 1918, to make some proper arrangements with reference to royalties, in keeping with the war conditions which exist.

Now, is that, gentlemen, a proper preliminary statement of the purpose of this legislation? I think that we might get that definitely before us in the beginning.

Colonel VANDERWERKER. I think so.

Colonel PATTERSON. I think so.

Mr. LANHAM. Inasmuch as this proposed measure was sent to us through the Secretary of War by the War Department, it seems appropriate first to hear from the representatives of the War Department and we are pleased to have with us again on this occasion Col. Francis H. Vanderwerker, who is the Chief of the Patent Division of the Office of the Judge Advocate General of the War Department, who has appeared before this committee on several occasions. We will be glad to hear you, Colonel.

Colonel VANDERWERKER. Mr. Chairman, Colonel Patterson is prepared to present the War Department's views with reference to the bill.

Mr. LANHAM. Then we will be glad to hear Colonel Patterson at this time.

STATEMENT OF COL. EARL S. PATTERSON, WAR DEPARTMENT

Colonel PATTERSON. Mr. Chairman.

Mr. LANHAM. Will you give the reporter your full name, Colonel?

Colonel PATTERSON. My name is Earl S. Patterson, and I have been designated by the War Department to testify in connection with the bill H. R. 7620.

This bill was prepared by the War Department in collaboration with the Navy Department and the Department of Justice. It has been approved as to Presidential policy by the Bureau of the Budget after reference to other interested agencies of the Government.

Since the introduction of the bill, the War Department has determined that it would be desirable to make certain changes in its language. I am therefore authorized to request the committee, with the approval of the Bureau of the Budget, to amend the bill in the following manner.

I have a number of copies of the bill showing the suggested changes.

Mr. LANHAM. We will be glad to have those, and if you have additional copies that you can leave here with the clerk, and others who wish to see them, we would appreciate it. We would also like to have a copy to go into the record.

(The bill showing the above proposed amendments is as follows:)

[H. R. 7620, 77th Cong. 2d Sess.]

A BILL To provide for adjusting royalties for the use of inventions for the benefit of the United States and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever an invention ~~described in and covered by a patent, or an application for patent, of the United States,~~ *whether patented or unpatented*, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that

specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed, to the last known address of the licensor and licensee and shall be effective two days after the mailing thereof.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, ~~described in and covered by a patent or an application for a patent,~~ *whether patented or unpatented, and* whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid ~~by the Government~~ *directly or indirectly* for such manufacture, use, sale, or other disposition of such invention, or by way of refund ~~to the Government~~ if already paid ~~by it~~ to the licensee.

SEC. 5. The authority and discretion conferred by this Act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

~~SEC. 6. For the purposes of this Act and the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the manufacture, use, sale, or other disposition of an invention described in and covered by a United States patent or in an application for patent thereof by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or disposition for the United States.~~

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this Act. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act.

~~SEC. 7. This Act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or material~~

~~deliverable to the Government from and after the date of the approval hereof.~~ Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination ~~hereof~~ *thereof*, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of ~~a patent or patent application covering~~ an invention, *whether patented or unpatented*, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

Colonel PATTERSON. It is suggested that the bill as introduced be amended in the following respects:

In section 1, lines 3 and 4, page 1, strike out the words "described in and covered by a patent; or an application for patent, of the United States," and insert in lieu thereof the words ", whether patented or unpatented,".

Mr. LANHAM. I wonder, Colonel Patterson, if that does not have reference more or less to legislation that emanated from this committee with reference to keeping secret inventions for which applications for patents have been presented in the Patent Office that do not issue, and those, of course, would not be patented, and it is proposed to use that for a foundation for the suggested amendments.

Colonel PATTERSON. That is, I might say, one basis, sir, for the suggested change. Another is that the wording as now suggested would permit action in regard to an unlicensed, untested invention or one for which no application has been filed. In other words, a secret process would be included as well as an invention on which there had been an application filed.

I might say in that regard that we have had brought to our attention contracts in which royalties were payable by contractors and such contracts included royalty for the use of a patent as such, for other processes, which had been invented subsequent to the issuance of the patent, but in which and upon which no patent had been issued or no application had been filed and, thirdly, for engineering services in connection with both the patented article and the processes invented subsequent to its issuance.

Mr. LANHAM. Well, if there had been such secret processes unpatented, our laws are such that they could have been patented had the inventor so desired. Is that correct?

Colonel PATTERSON. Well, at least an application could have been filed upon them, sir, but in the before-mentioned instances none has been filed. Nevertheless a royalty is being paid upon the use of the processes.

Does that answer your query?

Mr. LANHAM. It does; yes, sir.

Colonel PATTERSON. In section 3, lines 16 and 17, strike out the words "described in and covered by a patent or an application for a patent," and insert in lieu thereof the words ", whether patented or unpatented, and".

That follows the same language which changes the bill to conform throughout.

In section 8, line 22, page 5——

Mr. LANHAM. You have a change in section 4 first. You will notice "directly or indirectly." And, you have changes in section 6.

Colonel PATTERSON. Apparently my notes do not follow the context of the bill by paragraphs.

In section 4, page 4, line 9.

I have that covered, sir, in a different paragraph. If I may continue, I am following through with the changes with regard to striking the words "patented or unpatented."

I will touch upon that later if I may.

Mr. LANHAM. Yes.

Colonel PATTERSON. In section 8, line 22, page 5, strike out the words "a patent or patent application covering" and in the same section, line 23, before "manufactured" insert the words ", whether patented or unpatented,".

Then referring back to section 4, in section 4, line 9, page 4, strike out the words "by the Government" and insert in lieu thereof the words "directly or indirectly".

Mr. LANHAM. While you are on that amendment, having explained the reasons for the inclusion of the words "whether patented or unpatented" in the other section, will you kindly state at this point the reasons for the insertion of "directly or indirectly" in section 4?

Colonel PATTERSON. Yes, sir. I would suggest, if I may, to continue with the changes in that paragraph, before I make that explanation, because there are two more places in which it is changed.

Mr. LANHAM. Yes.

Colonel PATTERSON. In line 11, page 4, strike out the words "to the Government" and "by it".

The purpose of the proposed amendments is to broaden the scope of section 4 to cover reductions in royalty rates for supplies, equipment, or materials produced or delivered for the United States by subcontractors or subordinate contractors, or which form a part of completed articles for which the United States pays or is chargeable as a part of the cost under prime contracts. While it was intended that section 4 would embrace any reduction in royalties accomplished by way of departmental order or compromise agreement, whether under a prime or subcontract, a strict construction of the language employed might result in denial of the right of the Government to claim the benefit of savings in cases other than those in which the prime contractor is the licensee, and the holding that the legislation is not applicable where the subcontractor is licensed to furnish the product or a component part thereof under a license agreement with the owner of the invention. It is believed the proposed amendments will eliminate doubt as to the scope of section 4 and make it sufficiently broad to enable the Government to obtain the benefit of any reduction accomplished.

Passing on to the next amendment, if you have no further questions, sir, in section 6 it is suggested that the entire paragraph be stricken and that in lieu thereof the following paragraph be inserted.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization and consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

I might state that the purpose of the proposed amendment is to remove any argument that this bill makes any change in the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), other than that the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

It is further suggested that the first sentence of section 7 be stricken, and that there be substituted therefor the following:

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this Act and to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act.

In explanation of that, may I say, sir, that the last sentence that I have just read is an addition to the provisions of the act, or the bill as originally drawn, and covers the situation which will exist if this bill is enacted, and at the time of its enactment, for goods already delivered upon which royalties have not been paid. We know of cases which we think can properly be reached by this bill in which royalties are being withheld by the Government or upon the order of the Government, which are excessive, although the goods have already been delivered or will be delivered at the time of the passage of this bill.

Mr. LANHAM. Is that in effect a renegotiation of the contract entered into by the Government since the war began?

Colonel PATTERSON. No, sir; it is not. It will cover those cases, however, such as one that I have in mind particularly which I will give you, as an illustration, in which the Government has told the contractor to go ahead and manufacture and that the Government will save him harmless as to the royalty which he would pay under an existing contract.

That particular contract was entered into this year. There have been deliveries under it. The royalty has not been paid and will not be paid in any event, whether this bill passes or not, until after a suit against the contractor by the patentee. The Government liability in that particular case will no doubt exceed a quarter of a million dollars. We feel that the amount of royalty is excessive.

It is cases of that sort that we seek to reach by this amendment.

Mr. LANHAM. And otherwise would have to be disposed of under the existing law?

Colonel PATTERSON: Yes, sir; the contractor would be subject to suit, and no doubt would recover under his contract the full amount of royalties specified, and we in turn under our indemnity agreement would have to pay that amount.

Mr. HOLLAND. In other words, if the bill is not passed the royalties would be wiped out?

Colonel PATTERSON. Well, the royalties would not be fully paid. If the bill is passed, they would be fixed under the act, and we would go back and adjust such royalties.

Mr. LANHAM. You have another amendment in section 7 which is primarily typographical, is it not?

Colonel PATTERSON. That is true.

Mr. LANHAM: I think that you had better indicate those.

Colonel PATTERSON. Correct a typographical error in section 7, line 11, page 5, change "hereof" to read "thereof."

Then, at the end of the bill, it is proposed to add a new section reading as follows, known as section 9:

SEC. 9. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

Mr. LANHAM. May I bring to your attention, Colonel, and get your judgment, with reference to a few amendments that appeal to me as being somewhat pertinent and which are not covered by those you have recommended.

Colonel PATTERSON. I will be very happy to listen to them. You, of course, appreciate that Colonel Vanderwerker is Chief Counsel of the Patent Division. So I will make a good listener and let Colonel Vanderwerker answer the questions.

Mr. LANHAM. We appreciate that and are glad to have each of you with us.

We who serve on this committee, of course, are interested in two things primarily: In the first place we are very anxious to do everything we can and should properly do to expedite the prosecution of the war.

In the second place we are naturally very solicitous about our patent system, which has been in existence since the beginning of the country, and which is predicated upon a provision of the Constitution that the founding fathers placed in our organic law.

We are anxious in doing what we properly may and should, to promote the prosecution of the war, and not to destroy or impair the operations of our patent system when the war is over. We do not contend that it does not need amendment. It probably needs considerable amendment.

We recognize also that certain things are necessary in times of war as emergency legislation to implement our patent system in its operations, as it affects the war.

Now, in such little time as I have had to give to the study of this bill in the multiplicity of duties that come before us here, I have noticed one or two things in particular which I think require some explanation.

In the first section of the bill, beginning, we will say, in line 9, on page 1, we have this language:

amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall deem are fair and just.

Now, we have a great many agencies in the Government. Some of them are temporary agencies devoting their work to the war effort.

It seems to me that primarily, matters of this character should be determined not by just any agency, but by the responsible heads of departments like the War Department and the Navy Department; perhaps by the Maritime Commission and the Commissioner of Patents.

We have a further provision that carries this idea even further in section 5:

SEC. 5. The authority and discretion conferred by this Act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

That, of course, could finally get this authority down to the colored messenger of an agency.

Now, in my cursory reading of this bill it just seems to me that that is broadening a little too much the ramifications of the authority over our patent system and endangering it, because not only the head of any agency—and there we have them almost without number—can settle these matters; but the head of that agency may delegate that authority to someone else in his agency and they may be delegated on down, and it seems to me these things should be determined by responsible authorities at the top who have to do with the conduct of this war and not sift them on down to the bottom.

Mr. SCOTT. Mr. Chairman, will you excuse me for interrupting?

Mr. LANHAM. Yes, Mr. Scott.

Mr. SCOTT. May I comment right there on one point?

Mr. LANHAM. Yes, Mr. Scott.

Mr. SCOTT. In section 3 I notice that the head of any department or any agency has authority to enter into compromises and settlements and then under the power in section 5 that can be delegated all of the way down.

Mr. LANHAM. That is correct.

Mr. SCOTT. After the war we are going to have a deluge of post-war claims.

Mr. LANHAM. That is correct.

Mr. SCOTT. And under this act anybody, as you have said, down to the least important employee could settle post-war claims.

Mr. LANHAM. That is correct, and I should like to carry that thought still further.

Over here in section 8 it says the head of each department or agency of the Government may issue such rules and regulations, and require such information as may be necessary and proper to carry out the provisions of this act.

Well, we might have so many rules and regulations issued by a lot of subordinates that we would just have a tangled mess of this whole situation.

I think with the purposes of this act every one is in accord. There is quite a difference, of course, and, of course, manufacturers and those who own patents realize that in the great expansion of their work due to the enormity of our war effort, there must be some modification of the royalty rates. That purpose is fine; but to subject our patent system to a lot of subordinates and let them make all kinds of rules and regulations, just seems to me a dangerous policy.

Now, with that statement, I want to ask this question, predicating this question upon that statement: Why could not this purpose be carried out if we gave this authority to the responsible heads that are charged with carrying on the war effort—the Secretary of War, the Secretary of the Navy, the head of the Maritime Commission, and the Commissioner of Patents; and without all of these ramifications here that a Philadelphia lawyer could not keep track of.

Mr. SCOTT. It would take all 4,000 of them to keep track of it.

Mr. LANHAM. Could we not have some contraction of authority in one place that would make for uniformity of operation and uniformity of rules and regulations, that would be understood by these manufacturers? I think it is very important for these things to be clearly understood by them, because I think that we are likely to thwart and diminish and hamper our production unless it is so clarified that they will know at all times just what they are doing.

Colonel PATTERSON. I can reply, sir, only so far as the War Department is concerned.

I think it can be said that the reason for the insertion of these provisions in this bill is because it was thought necessary under the law that there be a delegation of authority to subordinate officers.

Now, as a matter of practice, as you know, the Secretary of War or the Under Secretary of War, or even the commanding general of the Matériel Division does not negotiate and does not sign contracts except in particular instances. At the present time, for instance, unless it is an unusual case, no contract in an amount of less than $5,000,000 goes to the Under Secretary of War for signature. And, for instance, in the Air Forces, if it involves less than a million dollars, it will not go to General Echols who is in command of the Matériel Section of the air forces. All contracts of lesser amounts are given to the contracting officer for negotiation and signature.

Now, those contracting officers are very carefully selected. They are men who in most instances have been contracting officers for years, and they have an experience which enables them to make contracts, in our opinion, which are proper.

It was thought, however, in connection with this bill, so far as the Army was concerned, that this authority would perhaps be necessarily delegated down to such contracting officers.

Mr. LANHAM. I appreciate what you have said and perhaps I should amplify my original statement.

I did not mean by my statement that no one else would have anything else whatever to do with the establishment of these rates and the rules and regulations, and so forth, but that we should have responsible heads such as those I have indicated, and that they, of

course, would necessarily have in their organizations those who would help them in arriving at the proper conclusions.

Colonel PATTERSON. The difficulty, if I may interrupt you sir, in that connection, is this, that unless there is a specific delegation of authority in this bill, it has been held by those who tell us what the law is, that the subordinate cannot handle a particular contract or do the particular thing, and if this bill were to be amended as you suggest, sir, limiting that power to the head of the Government or to the department, as such, without any power of delegation, each act that was performed under this bill would have to be done by Mr. Stimson himself as Secretary of War.

Mr. LANHAM. How about a provision reading "by them or under their direction," or something of that kind, so that we will have some responsibility; because section 5 just takes this authority down to the most minor employee.

Mr. SCOTT. It would make it impossible, would it not, to fix responsibility for mistakes or overpayments after the war; that is, the provision in section 5.

Mr. LANHAM. Well, it so occurs to me.

I understand that the ones I have indicated would not be doing all of the work, of course; but I think whatever is done should be done under their direction in such a way that when this is over and we have the problems that will arise—we know will arise—they arose after the last war, and this war is of greater magnitude—that we should have some responsible heads. Of course, they will have to give directions to those who carry on various features of it.

Mr. HOLLAND. Who signs those contracts, Colonel? You are speaking about the different-sized contracts. Who signs them; does the Secretary of War sign every one of those?

Colonel PATTERSON. No, sir.

Mr. HOLLAND. Could you make this bill so read that the man who signs the contract would be responsible?

Colonel PATTERSON. That might be satisfactory in some instances, or most instances, so far as the War Department is concerned; but it might not be satisfactory so far as some other department or agency of the Government is concerned.

Now, I might say this to you further that I do not have the same feeling about the legal effect of the bill as suggested by the Congressman. I think that there is still a responsibility in the head of the department or agency, to see that this act is carried out properly, and if it is not, then he is still responsible, although he may delegate that authority.

Mr. SCOTT. Perhaps my trouble is that I am a Philadelphia lawyer. Would it not accomplish what you seek to accomplish here if we provided for fixing responsibility in the Cabinet officer and provided that such Cabinet officer may delegate certain limited or normal authority to such heads of divisions or departments as he may set up for that purpose.

Mr. LANHAM. That is along what I have in mind.

Mr. HOLLAND. We are going to get into an awful bottleneck though.

Mr. LANHAM. Something of that sort was in my mind. Then if in these agencies and departments that I have suggested there will be conflicts, they could determine the method of carrying out the act and

then we would at least have some centralized responsibility it would certainly be most helpful to the Congress in settling these post-war disputes.

Mr. HOLLAND. If you are going to put it all in one man's lap, you are going to have a bottleneck, and you will not get anything done.

Mr. LANHAM. That is not my thought.

Mr. HOLLAND. Thank God, I am not a lawyer. I am a manufacturer.

Mr. LANHAM. It is not my thought to put it all in one man's lap, but I think if a manufacturer has one set of rules and regulations from one agency and another set of rules and regulations from another agency, and any one under section 5 can be the one with whom he deals, he might deal tomorrow with a very different man from the man he was dealing with today, that we would have a state of confusion that would hinder our war production.

Now, I do not know just how this act should be amended in that regard; but in my judgment, from such study as I have been able to give it, there certainly ought to be some clarifying amendment that will fix the responsibility and that will alleviate the trouble that we will have legislatively in the post-war period in settling these various claims, and also in keeping our patent system unimpaired by what may be done for the duration of this war, in efforts to be helpful in carrying it on.

Now, I do not know. I just suggest that here at the beginning of these hearings, in order that some thought may be given to it that it may be worked out in a proper way.

We are all, I think, in accord with the purposes of this bill; but there are some of these incidental features which I think should be given consideration to make this bill more operative when it is enacted, to reduce the trouble we will have with claims after the war and to preserve our patent system for the post-war period.

Now, I think some consideration should be given to those matters during the course of this hearing and I am just mentioning it now at the outset as a thought that occurred to me in perusing this bill, and if I am wrong, why, I am willing to be corrected. If the idea is right, why, we are all of one accord in wanting to do what should be done, so let us see if we cannot in a multitude of counsel find some way of getting that properly stated.

Mr. HOLLAND. I think, Mr. Chairman, this may sound worse than it really is. It does not mean really to go down so far as indicated in the delegation of powers. I do not think in any of the departments that they are going to delegate the powers too far down the ladder. My experience with men in political life is that they do not try to delegate too much power down the ladder, and I think the War Department will act in the same way.

Mr. LANHAM. I want to say in that connection that I think that we who serve in the Congress of the United States have a very definite responsibility. Criticism of the Congress seems to me a more or less popular indoor sport in view of the fact, exclusive of the Army and the Navy, we now have approximately 2,000,000 of our people on the Federal pay roll—is not that about an accurate statement—and the people select 531 by their ballots out of 2,000,000 those who serve in the two bodies of Congress, and inasmuch as what is done by the re-

mainder of the 2,000,000 sometimes comes back to the Congress by way of criticism—a little group of 531—I think it behooves us for ourselves as representatives of the people to try and obviate just as many of these difficulties and subsequent criticisms as might arise.

Mr. SCOTT. Mr. Chairman, if this is still a government of laws and not of men, does it not behoove us to get the law in as good shape as we can and leave to the War and Navy Departments and the Commissioner of Patents the selection of the right men to whom to delegate the power?

Mr. LANHAM. That was my thought about it.

Colonel PATTERSON. Might I make this observation, sir: There is in existence today laws providing for the delegation of power to subordinate officers of the War Department. They exercise it. Without such subordination of effort, we could not accomplish what have have to to accomplish.

Now certainly if contracting officers have authority to make a contract for $10,000,000 or $50,000,000 or $100,000,000, subject to approval in certain cases by the Under Secretary of War, they would be competent to settle a royalty claim involving maybe one one-hundredth of the total contract price, which would be the percentage of the amount involved in such cases as I envision under this bill. It certainly was not contemplated in the preparation of the bill that any provision as to delegation of authority would relieve the head of the department of any responsibility in connection with such a delegation. Never was it intended that the delegation practice, as such, which has been in vogue in the War Department would be in any way changed by the provisions of this bill. In other words, I assume that I am correct in saying that the delegation will never go down below that to the contracting officer who makes the original contract, and it will be in responsible hands, and the Secretary of War will be responsible to the Congress and to the people for acts under the bill.

Mr. LANHAM. Well, now, Colonel Patterson, have you not made a good suggestion there. We have a law with reference to that. During the hearings could you not bring the pertinent parts of that law up here and could we not, in accordance with that law, make some modification here or some proper reference to it with reference to the carrying out of the authority that would be contained in this act?

Mr. SCOTT. It would be covered, Colonel, by the contracting officer.

Colonel PATTERSON. I would not think it would be safe to do that, sir. The Secretary might desire to act as in the case of claims against the Government today. The Secretary of War, or the Under Secretary of War, has just set up a board of three officers to settle those claims. They are high ranking officers. They are capable officers and it might be that if there are a great number of claims which arise out of this act, that he might want to delegate the authority to compromise to that board. I feel that you must trust implicitly, or at least if not implicitly, generally, the heads of your departments and as long as they are given the authority in the bill they are responsible for the delegation of such authority and for the acts of their subordinates in carrying out the provisions of the bill.

Mr. LANHAM. But this refers to any agency also, Colonel, and I doubt if you or I know just how many of these agencies there are

Mr. SCOTT. We would expect that you would have to delegate most of the details, but in this bill you delegate the final decision as well, and that is what I think we want tightened up. Is that not true, Mr. Lanham?

Mr. LANHAM. I feel that way.

Mr. SCOTT. I think that is what we want.

Mr. LANHAM. Of course, I do not intend by my suggestion that all of this work should be done by the Secretary of War, and so forth, but I do think that we should have men in responsible positions under whose direction it will be done, so that there may be some uniformity with reference to the provisions that manufacturers and the Government and everybody else will understand, and I think we will speed up our production in such a way.

Mr. HOLLAND. We could not have uniformity, because it would all depend on the size of the contracts.

Mr. LANHAM. I do not mean uniformity with reference to the size of the contracts. I mean uniformity with reference to the principles and policies, and rules and regulations, as to what manufacturers may or may not do; as to what they may or may not expect and that they may not be dealing with one officer today and another officer tomorrow, and so on, ad infinitum.

I think the suggestion is intended to be helpful, in speeding the purposes of the act, and in avoiding confusion and too much diffusion of directive authority; but to just turn this power over to all these various agencies, any agency can make its rules and regulations, and it is likely to result in confusion that will hamper our efforts.

We are all, I think, assuming from everything I have heard, in accord insofar as the purposes of this act are concerned.

Colonel PATTERSON. I can assure you, sir, that we will be glad to consider your suggestions, and confer with you further with regard to it.

Mr. LANHAM. Well, that is, confer with the committee, because I happen to be only one of them and I am not the chairman.

Mr. SCOTT. As I see it, all we are driving at is trying to find some way to channel it, avoiding what Congressman Holland has referred to as a bottleneck, but we want to avoid a sieve, on the other hand, if we can get the responsibility where you can put your fingers on it, and provide for a delegation of all of these details.

Mr. LANHAM. And provide certainty of procedure on the part of these people who have patent rights.

Mr. SCOTT. Surely. I think that we are all agreed with the purposes of this bill, and that it is desirable, but we want to properly accomplish them.

Mr. LANHAM. Do you have any further statement?

Colonel PATTERSON. Yes. I did not want to interrupt you, sir.

Mr. LANHAM. I beg your pardon. I thought that you had concluded your statement.

Colonel PATTERSON. No. In fact, I have just begun.

Before addressing myself to the particular problems which have been encountered in the War Department procurement I will direct my comment to the present status of the law relating to inventions manufactured, used, made, or sold by or for the Government.

The act of June 25, 1910, as amended July 1, 1918 (35 U. S. C. A. 68), provides as follows:

> Whenever an invention described in and covered by a patent of the United States shall be used or manufactured by or for United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

By virtue of this statute the owner of a patent may sue the United States to recover reasonable compensation whenever his invention is used without consent in connection with war procurement. Because of this law, it has been the policy of the procuring agencies of the War Department to use unhesitatingly any patent which it deems essential in its procurement program. In some instances agreements for payment of royalty are made in advance of such use. In other cases, payments by way of settlement are made after the use either when such use may have been with knowledge of the patent or through an unwitting infringement. Thus it is seen that as to all cases in which no license agreement between the patent holder and Government manufacturer exists, the United States uses any and all patents, as such, by the simple expedient of expropriation or infringement.

The Government also protects the patent holder in those cases where a patent application is held in secrecy by giving him a right of action for the use of the invention by the Government (Public Law 700, 76th Cong.).

In recent months it has come to the notice of the War Department that procurement costs of material in certain instances have been exorbitant and by reason of royalty under an already-existing patent license. The principal motive of the bill before you is to remedy such situations.

You may ask why the remedy does not lie in the 1910 act as amended. The answer is that our courts have held that such law does not apply where an invention is furnished for use of the United States by the licensee under a patent and is no defense to a suit by the owner of the patent against the licensee for royalties.

Such is the holding of the United States Circuit Court of Appeals, Fourth Circuit, in the case of *Newport News Shipbuilding and Dry Dock Company* v. *Asherwood* (5 Fed. Repts., 2d, 924). In such case application for certiorari to the Supreme Court was taken and dismissed.

In other words, if the air forces enter into a contract with Curtiss-Wright for an airplane engine, some part of which involves an invention licensed to Curtiss-Wright by the inventor, the air forces must, as a practical matter, pay as a part of the contract price such patent royalty payable by Curtiss-Wright under its license agreement.

You will, I am sure, be interested in certain of our experiences which illustrate the cost of patents in war procurement and our need for this legislation.

A certain company whom I will describe as "A" corporation, owns or controls through a subsidiary patents upon matériel which it manufactures. It has licensed the use of its patent to a second corporation upon a royalty basis of 6 percent on scheduled sale price of

matériel. This schedule price is today approximately 100 percent greater than the cost of manufacturing the matériel. Under this license the royalty is, therefore, actually 12 percent, based upon cost of manufacturing for the Government. In a recent call for bids on a particular order, the "A" corporation, the holder of the patent, submitted a bid, as follows:

	B-1	C-1	E-1	F. A.
A company	$42.53	$62.73	$52.32	$53.55
B company	23.14	25.39	29.21	27.35

The bid of B company of the above-quoted price was made conditional upon said B company being indemnified by the Government against all patent liability in connection with the payment of patent royalties, under the above-mentioned license agreement between itself and the A company or its subsidiary. The total contract price of the B company for the particular order upon which bids were requested was the sum of $3,160,762.06. It is readily apparent from a computation of the before-mentioned individual items that had the contract been let to the A company, the contract price for the same material would have been upwards of $6,000,000.

The Air Force, in order to obtain the material at the lower price quoted by the B company, entered into a contract for the production thereof, in which they agreed to hold the B company harmless against liability by reason of said patent royalties with A company. I am not exactly informed as to the royalty agreement under which the B company is liable to the A company by reason of this one contract, but from information given the Air Force by one of the officials of the B company, it is believed to be an amount approximately $227,000.

If this bill is made law, a very substantial part of the said $227,000 will be saved to the Government.

That royalty has not been paid and will not be paid until the end of a lawsuit, and if this law becomes effective prior to the time of its payment, of course, it could be adjusted.

Another illustration of the amount of royalty paid to an individual in connection with a single patent arises in connection with the production of a single item of airplane construction. It now appears that under existing royalty contracts between a certain inventor and aircraft companies manufacturing for the Government, that such inventor will receive on existing contracts approximately $1,750,000. This matter is now under investigation by the proper authorities in the Air Forces with a view to reducing the amount of said royalties. The patent holder is said to be willing to negotiate for a reduction in royalty. As yet, these royalties have not accrued because production is only now commencing under the invention.

However, unless there is an adjustment made by the inventor voluntarily the Government will be liable for the payment of the $1,750,000. This is another instance in which this bill would be effective.

A third case involves a patent owned by a German national, licensed to an American citizen who has in turn licensed to a steel company. The royalty cost on a single item consisting of a small recoil spring will, under existing Air Force contracts exact a payment from the

Government of $60,000. In this case the Air Force is advising the contractor not to pay the royalty and is agreeing to hold such contractor harmless. If this bill becomes a law the greater part of the $60,000 will be saved to the Government. Unless this bill becomes law, none of the $60,000 can be saved to the Government.

Another illustration is the case of the A company, which controls through its patents a rolling mill for the production of steel plate. The patents have been extensively litigated by the steel industry and thus far they have been held valid. The A company has been executing a number of license agreements with various steel companies requiring the payment of a royalty amounting to about 5 percent of the cost of manufacture of steel plate made on Stackel mills. The B company and C company are among the licensees and have contracted with the Ordnance Department for the supply of steel plate for use in the making of steel cartridge cases. Their contract costs will include royalties which they will be obliged to pay. While the payment of some royalty to the A company is undoubtedly justified, it is thought that 5 percent is very excessive, particularly in view of the fact that this figure is out of proportion when applied to the greatly increased production brought about by the war. The total amount of royalty will run into millions of dollars. Moreover, insofar as we are at present informed, the use of the patented mill for the production of Ordnance requirements is not inherently necessary, but has been resorted to for the reason that the urgency of the situation required the use of every available source of supply. The ordnance plate could be manufactured on other types of noninfringing mills, but all mills of the noninfringing type are already loaded to capacity.

It should be appreciated that the Ordnance Department is more or less powerless in the situation inasmuch as companies in the position of B will absolutely refuse to deal with the Ordnance Department unless it agrees to underwrite the royalties or to indemnify them, if they refuse to carry out their license agreements with A. An attempt has been made to induce the A company to waive its royalties on war production but that company has been adamant in its refusal. It points out that royalties of this nature are being paid throughout industry, and that it is not fair to request it to waive its royalties when others are not doing so. They contend that if this situation is to be corrected, it should be corrected by legislation, which would cover all patents.

To continue my discussion, the bill would permit the War Department to examine existing royalty agreements of Government contractors and subcontractors and whenever it appeared that the amount of royalty was too great, such Department could give notice to the licensee not to pay any further royalty until further order. An examination of the problem would be made and a conclusion reached as to the amount of royalty deemed fair and equitable under the particular circumstances. The licensee would then be advised to pay such amount as the procurement authority found to be fair and just and no more. Such an order would apply to royalty unpaid at the time of the original notice whether or not a delivery of the article embodying the invention has taken place.

The determination of the procurement authority would only be effective as to the particular Government contract under consideration.

If at a later time the quantity of procurement under a different contract should dictate a different royalty, the same procedure will be followed. In the event no such action is taken upon any procurement, the royalty will, of course, be paid in pursuance of the license agreement.

The bill would also have the effect of preventing the collection of royalty by the licensor from the licensee under the royalty contract in an amount greater than determined by the procurement agency, relegating the licensor to an action against the Government for such sum, if any, as he may be entitled to in addition to the sum paid as would constitute fair and just compensation.

The provisions of the bill can, therefore, be said to fulfill the requirements of the fifth amendment to the Constitution and its provisions are thought to be lawful.

The Government is protected in any suit against it, to the extent that it may avail itself of any and all defenses that might be raised in an action for infringement as permitted by existing law.

The bill further provides for the settlement by the procurement authority of claims arising under the act until, and unless, suit has been filed against the United States. Coupled with this right is the further right to contract concerning future royalties. It is believed important, in the interest of licensor, as well as in the interest of the Government, to authorize a settlement of royalty claims by the procurement authority. Suits will be avoided and money rightfully due will be paid without the delay incident to court action.

The bill also attempts to make certain the credit to, or the recoupment by, the Government of the reduction in royalty. The purpose of section 4 is to insure that a contractor or subcontractor, who by reason of an order reducing a royalty payment involved in his contract does not have to pay as much royalty as was contemplated by the parties at the time the procurement contract was entered into, will be compelled to give the Government the benefit of such reduction.

Section 7 of the bill has been prepared in contemplation of the procurement situation with relation to inventions which will exist at the time of the passage of the act.

We know that at such time deliveries will have been made of articles covered by inventions upon which no royalties have then been paid. The bill will be effective as to these royalties if nonpayment or partial payment is ordered before payment is actually made to the licensor.

Furthermore we know that at the time of the passage of the act there will be in existence obligations to pay royalties by reason of license contracts under which deliveries have not yet been made to the Government. The bill will be effective as to the royalty payable for matériel covered by a particular invention, delivery after the passage of the bill, which royalty is unpaid at the time an order reducing same is given pursuant to section 4 of the bill.

The bill is in its principal features, a war time measure. It is essential, however, that certain features of it be retained as permanent legislation. They speak for themselves without further explanation.

Another effect of the bill is to place the inventor, who has contracted for the use of his patent on a royalty basis, upon the same footing as the inventor whose invention is unlicensed, insofar as Government use of said inventions is concerned. Both will receive just compensation for the use of their invention by the Government.

The War Department is today fully cognizant of the fact that patent cost in war procurement is a vital problem.

Many license contracts provide for a percentage royalty which was predicated upon commercial or peacetime Army production. Their makers never visualized the situation which now exists. A 5- or even a 10-percent royalty on a small commercial volume, would, perhaps, have been fair and equitable, but the same percentage of royalty applied upon a hundred or a thousand times greater volume due to the war becomes excessive.

In conclusion it may be said that this legislation is needed by the Army in those infrequent cases in which it is not feasible or possible to obtain a voluntary reduction in royalty under an existing license, which royalty is excessive.

We still occasionally find men who selfishly look upon this war as an extraordinary opportunity for unjust enrichment.

We can now requisition or condemn every kind of species of property except patents.

The War Department does not believe that inventions or their resultant patents are entitled to any greater degree of sanctity than other property.

In our opinion, existing royalties can, in all fairness to the inventor or the patent holder, be reduced to effect a really huge saving in the War Department procurement.

This bill is, in the opinion of the War Department, the best method of meeting the Army's present needs. It covers cases which cannot be reached by requisitioning or other remedies.

Speed in the adoption of the legislation is very important, as each day results in the payment of royalties which can be reduced in amount and saved to the Government, were this law in effect.

Mr. LANHAM. May I ask you a question or two, Colonel?

Some of the other members of the committee would like to also. Generally speaking, you have found these manufacturers and patent owners willing to be cooperative, have you not, and not to predicate their rights of profit upon the commercial production in these times?

Colonel PATTERSON. I would say yes, in the very vast majority of cases, sir. It is only in the isolated cases that we have difficulty.

Mr. LANHAM. The War Department, I infer from what you have said, does recognize the owner of the patent as having a property right for the limited term that the law prescribes.

Colonel PATTERSON. Very definitely, sir.

Mr. LANHAM. Now, you made a reference to part of the legislation being permanent.

In section 7 there is this provision:

> Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination hereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

Now, just what does that mean with reference to the permanent effect of various provisions of this bill after the duration of the war?

Colonel PATTERSON. Well, the gravamen of the bill as such is contained in sections 1 and 2, sir, which by section 7 are the provisions to remain in force during the emergency.

The other sections of the bill are thought to be necessary as permanent legislation, and for that reason they were not included as numbered paragraphs to be affected by the automatic repealer. That is a matter which was given very careful consideration by the committee which prepared this bill, and I do not believe it will be found that in any of the other sections there is anything which should not properly be considered as permanent legislation.

Mr. LANHAM. Well, my question was merely to get an explanation of the provisions for the record.

Colonel PATTERSON. Yes, sir.

Mr. LANHAM. Are there any further questions?

Mr. HOLLAND. Mr. Chairman.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. In connection with those isolated cases you speak of, I have been told that that material was very essential to the prosecution of the war. Some of the trouble you have had so far has been on material that is very, very important to get; is that right?

Colonel PATTERSON. Well, sir, I cannot answer that with any degree of exactitude. I think anything that we need for war procurement is important. Some of it would be relatively more important than something else.

Mr. HOLLAND. A good bit of it is electrical, is it not?

Colonel PATTERSON. A great deal has been radio as distinguished from electrical equipment.

Mr. HOLLAND. I mean in that field.

Colonel PATTERSON. In that field; yes, sir.

I might comment to you in that regard that the radio license field today is very thoroughly covered by licensees to the Government from, I would say 95 percent of the holders of patents or licenses in radio. That is by reason of the campaign put on last year by the Army Signal Corps to obtain such licenses.

Mr. HOLLAND. How about the companies that have, like the large companies, which have the parent company, then the manufacturing company, and the distributor. In those cases would you work directly with the manufacturing company or would you have to go through the distributor?

Colonel PATTERSON. You mean, sir, if this bill were law?

Mr. HOLLAND. Yes, if the bill were law; would you go directly to the manufacturing company?

Colonel PATTERSON. Notice of nonpayment of royalty would go to the contractor and the licensor under the patent. A similar notice would go to the licensee who in most cases would be the contractor. In some cases he would not, as where there was a subcontract and the subcontractor happened to be a licensee. That, ordinarily, would effectively stop the payment of royalty to the licensor or the holder of the patent until such time as it could be determined by proper authority the amount which was thought fair for the royalty under that particular contract.

I think one of the greatest difficulties concerning royalties has arisen by reason of the tremendous increase in production volume. In the Signal Corps alone, the volume, I think over 1939 it has increased many, many fold—thousands of times—and what was a reasonable royalty at 6 percent for commercial use in radio turned out to be extremely excessive when applied to such tremendous war volume.

Mr. LANHAM. Have you concluded, Mr. Holland?

Mr. HOLLAND. Yes; thank you.

Mr. LANHAM. There is one further question I should like to ask here. In section 1, where there is reference to the—

rates or amounts which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered certain manufacture, use, sale, or other disposition, the head of the Department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just.

Now, that gives that right to fix and determine the royalty to any agency, as I understand it. Now, suppose that a manufacturer, a licensor, or those included within the enumeration, are perfectly patriotic and not desiring to make an unjust or undue profit, should feel that the order fixing the amount of royalty was not fair and just, what recourse by way of an appeal would a manufacturer or patent owner or licensee have under such circumstances?

Colonel PATTERSON. He should in that case ask his licensor to sue in the Court of Claims for the difference. He is entitled to take such action.

Mr. LANHAM. Under this act he would still have the right of appeal from any such order?

Colonel PATTERSON. If the licensor is not satisfied with the amount which the War Department should fix as the amount it felt to be a fair royalty, he could sue in the Court of Claims for fair and just compensation, in other words, an amount which when added to the amount already paid to him by the order of the War Department would constitute just compensation under the fifth amendment.

Mr. SCOTT. Mr. Chairman.

Mr. LANHAM. Mr. Scott.

Mr. SCOTT. You might also accomplish that perhaps by the appointment of a commission to determine it made up of delegates or representatives of the War, Navy, and Commerce Departments. Could it not be done in that way and avoid perhaps the burdening of the Court and the delay incident to the Court's procedure? Suppose you had a dissatisfied claimant.

Colonel PATTERSON. Personally, and unofficially, I do not agree with the theory that you should deprive a man of his day in court and make his exclusive remedy that of air action before a commission or agency of the Government.

Mr. SCOTT. I was thinking of arbitration with the ultimate right of appeal. That is what I was leading to; not depriving him of his day in court, but to facilitate the attainment of his rights by the action of some commission. Then if he is still dissatisfied, he has his remedy in court.

Colonel PATTERSON. I might make this further observation also, purely personally, as the result of some of my experiences. I think if the actual practice under this act should become at all burdensome to the War Department that any settlements incident to orders issued by the Department might be delegated by the Under Secretary of War to the board that he has already set up for the settlement of claims against the War Department.

I do not visualize, through my experience herein the last 2 years that there are going to be any great number of these cases. I thin'

they are going to be very, very few in number and that it is only in the isolated and infrequent case that we are going to have to use this act as a remedy.

As an illustration of that, take the Requisition Act, under which we have the right to requisition all kinds of personal property, except patents. For the first year of its operation after passage, I do not suppose we had 100 requisitions, and it is used extremely infrequently.

Mr. SCOTT. I had one other question which I may ask at this time. This appears to be a hybrid act in that certain parts of it are emergency provisions for wartime only, and others appear to be permanent.

What, in your opinion, Colonel, would be the objection providing that the whole act shall be limited to the period of the war and for 6 months thereafter, it being my thought that in so doing you would have the benefit of the experience obtained in administering the act and we might be far better qualified to provide for limiting the rights of citizens after the war, in peacetime, once we knew how the various provisions of this act were going to work.

Colonel PATTERSON. In answer to that, may I say, sir, that those who drafted the bill felt that there were certain incidental things which were in controversy and that we might once and for all cure them and that we would all be benefited if we had them out of the way. I mean that in connection with section 6, for instance. There has always been some question in the minds of patent lawyers as to whether the 1910 act as amended, applied to subcontractors, or whether it applied only to contractors, prime contractors with the Government. It was believed best to settle that controversy, and that question, once and for all, by putting in a provision, that insofar as this act is concerned, and insofar as the 1910 act as amended is concerned, they should apply to subcontractors as well as contractors of the Government.

Mr. LANHAM. Have there been court decisions on that?

Colonel PATTERSON. No, sir; there have not. Therefore, the argument proceeds. And, that argument is not only among patent lawyers as such, but also between different departments of the Government. There has been a nonconformity of ideas as it were.

I might say that it has always been the opinion of the War Department that the act of 1910 as amended, does apply to subcontractors.

Mr. SCOTT. It is the old question of privity of contract there, I suppose, raised by some. Some may have differed with that view, I imagine.

Colonel PATTERSON. Does that answer your question, sir?

Mr. SCOTT. Yes, it does, Colonel. I just had this thought in mind that in emergency or wartime legislation we ought to give you all of the power you think you need, but in connection with controversial legislation, we may be delayed in getting this power, by incorporating too much permanent legislation, too many provisions of a permanent character. I do not know whether or not they could be separated without injury to the purposes you have in mind. That is all.

Colonel PATTERSON. We feel that it is perfectly proper to continue in effect those sections other than 1 and 2, and no harm will be done.

Mr. LANHAM. Are there any other questions to be asked of the Colonel?

We certainly thank you very much for this splendid presentation.

Colonel PATTERSON. I wish to thank you for the opportunity.

Mr. LANHAM. Now, we cannot proceed with you gentlemen beyond 12 o'clock, when the House meets, and I wonder if this would be satisfactory. We have two gentlemen here from New York who are anxious to get back to New York and I wonder if we might hear them for 10 minutes each ,which will be all of the time we have, if that is sufficient for them, and then tomorrow morning, if agreeable to you Mr. Chappell, we will start the hearing with you.

These two gentlemen are Mr. Arthur Middleton, who is Assistant Secretary, National Advisory Council to the House Patents Committee, and Mr. Newton A. Burgess, president of the New York Patent Law Association, 141 Broadway, New York, N. Y.

So, if you gentlemen can get along with 10 minutes each—that is all of the time that we can allow you. Which one of you will appear first?

Mr. MIDDLETON. Mr. Burgess will speak first.

Mr. LANHAM. We will be glad to hear you, Mr. Burgess.

STATEMENT OF NEWTON A. BURGESS, PRESIDENT, NEW YORK PATENT LAW ASSOCIATION, NEW YORK, N. Y.

Mr. BURGESS. Mr. Chairman, I wish to say that so far as our association is concerned, we are very much in favor of the spirit of this proposed legislation.

We had a meeting of our board of directors last week and considered it only briefly, because of the short time, and we were unanimous in saying that we were in favor of the spirit of the bill.

However, there are a few things, many of which have been touched upon already, in which we think the bill could be improved.

I might say the first of those is in my opinion, instead of having the head of the department, and whether or not the royalty in question is unreasonable, or excessive, I think it would be a good plan to have a board appointed composed of one or more representatives from the War Department; the Navy Department; the Department of Commerce and perhaps from some other department of the Government.

You could have as many members from each of those—an equal number from each—and have, therefore, if you needed them, on account of the amount of work involved, you could have as many of these boards sitting limited to five members perhaps, as you needed for the purpose. In that way you would get uniform rules and regulations covering the procedure. You would also get centralized authority and you would get responsible people who are named to do this particular thing as representatives of these departments, and I think by proceeding in that way you would have a better opportunity to determine whether or not royalties that had been agreed upon before were excessive or not.

So, that is my first suggestion.

The Chairman has already pointed out the difficulty of having the matter delegated down from the top to the bottom, and you would have hopeless confusion I think if you did that. So that I would suggest, as stated before that this Board take care of the matter.

Now, the defenses are stated in here to be such that the Government would not be—it would be in a preferred position as respects the question of validity of patents. We all know, of course, that the law

is fixed that a licensee cannot challenge the validity of a patent under which he operates.

If this law were put into effect as it stands now, the Government would not be in that position or the contractor would not be in that position, and the patent owner would, therefore, be subject to having his patent attacked on the validity of it, and that is contrary to the present law that a licensee must let the validity stand and attack the patent only on the question of scope, that is, the question of infringement.

So that I think in the provision—I forgot which paragraph it is now—that speaks of defense, it should be changed to say that the Government or the contractor, as the case may be, should have only those defenses that are open to any other licensee.

I think that that is in paragraph 2, the license.

In any such suit, the United States may avail itself of any and all defenses generally and specially that might be pleaded by a defendant in an action for infringement, as set forth in section 6 or otherwise, and that, I think, would permit the Government to attack the validity of the patent, if I understand it correctly.

So I think that that should be remedied as to the defenses of the ordinary licensee, which would be only on the question of infringement.

Mr. LANHAM. Do we ever have that arise in reference to patent litigations, that the Government attacks the validity of the patent which it has issued?

Mr. BURGESS. Oh, yes. I do not see why not. All the defenses are open to it that are open to anyone esle. Then they could attack the validity, of course; yes, sir. That is the reason, not because——

Mr. LANHAM. I am speaking of conditions in the former practice.

Mr. BURGESS. Oh, yes.

Mr. LANHAM. That has frequently occurred?

Mr. BURGESS. Oh, yes; that is certainly so, and not because it is the Government, but because, in my opinion, the law is so well established, whether it is the Government or anyone else. That is my point, and the Government comes in here and modifies a license contract that has been made already which I think is all right. Then the Government ought to be in the same position as the licensee and should not be permitted to attack the validity of the patent under which the Government is operating and in this instance advantageously in comparison to other licensees.

Mr. LANHAM. Matters of royalty could be attacked without any attack upon the validity of the patent?

Mr. BURGESS. Of course; but this action that I speak of is for that amount which the patentee or licensee, or licensor thinks he is entitled to over and above the royalty that has been fixed by the head of the department or, as I hope, by some board which will be appointed, as I said before. It is on this additional amount that this question of attacks on the validity would come in. It would not come in at all in performing the license agreement, as I understand it.

On other matters we have—I hope that you will tell me when my 10 minutes are up.

Mr. LANHAM. You have 5 minutes more.

Mr. MIDDLETON. He may have time. I can wait over until tomorrow. I would rather have Mr. Burgess take my time and have him go right ahead.

Mr. BURGESS. Another point that occurs to me in connection with the matter is that if we have a considerable number of these cases that come up, or suits for additional compensation, after or during the war, the Court of Claims is going to be terribly congested. No doubt it already is. And, it would therefore seem to me to be appropriate to have it optional to sue for this additional compensation in the district courts rather than limit it to the Court of Claims. In that case, you see, we would have a great number of courts that could be used for the purpose of speeding up the suits and getting them out of the way and not have so many of them hanging over, as was the case after the other war, as I remember quite a number of cases there that went on for a great many years and, obviously, if all of these must go through the same course it is going to take much longer than if we had a multiplicity of courts and courts of appeal to take care of such matters, and I think that the bill should be amended or some provision should be made in it so that suits could be brought in the district courts in the district in which the licensor may be located or has his residence. That might not suit the Government. I am not sure about that, but I am not making any specific suggestions as to where justice should be. I have not had time to think that through.

Mr. LANHAM. You are speaking of the modification of section 2 to conform to that idea?

Mr. BURGESS. I think that we have even gone further than that in New York City, but my idea is to get these suits all cleaned up in a hurry and by having a number of courts that you can go into and do that, naturally you would expedite the whole matter and get it out of the way, and after all, some of these companies whose contracts are going to be revised either voluntarily or otherwise by this legislation may have to wait a long time for their money if they are entitled to anything more and it might be something; it might be a very serious matter for them, and so my thought was simply to find some way to expedite those. I am sorry that I do not have any specific suggestions to make, but that is a rather difficult question, as you can readily see.

Another thought that occurred to me, I notice the way the bill is drafted now, and I think Colonel Patterson this morning in speaking of it made the point that this proposed law would apply not only to goods, or uses, or what not, for material that had already been delivered, but, of course, to that which is delivered subsequent to the passage of this legislation.

Well, I think that it would be, it seems to me, a better plan if the law should be applied only to that material that is furnished or the use of that is made of it after receipt of the order that is provided for in the bill. In other words——

Mr. LANHAM. Well, what would you do with reference to inequities that might exist on goods that have already been delivered? Of course, we are producing goods now in such quantities, far beyond the peacetime commercial production, but would you leave the determination of those matters to legislation with reference to renegotiation of

contracts, or how would you take care of any inequities that might exist?

Mr. BURGESS. I am not too familiar with the breadth or the extent to which the renegotiation of contracts goes. I do not see any real reason why that law would not apply as well to royalties as with any other kind of contracts; that is, a license confract; but there would naturally be inequities, I think. We might say that there are some existing, and naturally they would continue until this legislation were put into effect and machinery gotten into operation so that these orders could be issued; but it would appear to me that that would be so relatively insignificant from the number of dollars, particularly as to percentage wise dollars involved in this controversy that we are in, that it could be more or less neglected.

I do not know anything about the number of dollars involved, but I would not think it would be very large.

I have no specific case in mind at all. I do not know. I imagine it would be rather considerable from the various things we have heard. Of course, we do not know just how accurate the information would be.

Looking at it from a licensee's standpoint, naturally he has proceeded on the theory of his contract and it may have made a difference with him as to how he has spent his money and proceeded. He might have laid out a lot of money in equipment or plant and something of that kind, and to come now after that and take it away after he had already made his plans based on that, I think would disrupt business and perhaps to the country as a whole, might do more harm than a relatively small number of dollars that would be involved as such.

Mr. LANHAM. That could be taken into consideration in determining the actual situation?

Mr. BURGESS. That could be. That is another thought in connection with it; but it seems to me putting him on the same basis for orders already delivered as he would be on goods to be delivered in the future, would be a slight inequity. My thought is that we could best let that matter stand. From that time on, whatever the Board or the head of the Department or what not, would determine would be the thing that would control. I think it is relatively unimportant, but it is a point which seems to me should be taken into consideration.

I have no further ideas. If there are any questions, I shall be glad to answer them. I think that just about covers my thoughts on the subject.

I thank you very much.

Mr. LANHAM. Are there any questions to be asked of Mr. Burgess? We thank you very much, Mr. Burgess.

Mr. BURGESS. Thank you.

Mr. LANHAM. Mr. Middleton, we have 10 minutes. Would you prefer to go on now, or wait until tomorrow?

Mr. MIDDLETON. I would prefer to go on now.

STATEMENT OF ARTHUR MIDDLETON, ASSISTANT SECRETARY, NATIONAL ADVISORY COUNCIL TO HOUSE PATENTS COMMITTEE, NEW YORK

Mr. MIDDLETON. My name is Arthur Middleton; I am assistant secretary, National Advisory Council to House Patents Committee, 570 Lexington Avenue, New York, N. Y.

I would say that our committee considered the bill. They approved it in principle. They recommend changes very much along the lines of what Mr. Burgess has recommended, namely, that section 5 be changed to provide for a board to administer the matter of change of royalties, because, as has been pointed out by the chairman, the delegation of authority to change a contract and even to terminate the royalty completely is left for delegation too far down the line, and I would like to call attention to the fact that the words "if any," as in section 1, which implies that the remedy can be completely terminated——

Mr. LANHAM. In line 6, page 2.

Mr. MIDDLETON. Yes, sir. Now, I had considerable experience in these matters in the last war. I was a patent adviser to the Army and Navy Patent Board. I was assistant to the Munitions Patent Board. I was representative of the Secretary of War and Assistant Secretary of War in the Patent Office. I was a member of the inventions section of the General Staff, and I handled numerous details in relation to these subjects, and from this experience in the last war, I certainly would recommend that a board be created to handle these matters.

We do not want the prosecutor to be the judge. The man who makes the decision should not be the man who makes the contract. He should be as impartial as he can be, and, therefore, I think he should be a different officer.

Therefore, I recommend that section 5 be amended to set up a board which might be called the Munitions Royalty Board, composed of three members, of which one shall be selected and appointed by the Secretary of War, one by the Secretary of the Navy, and one by the Secretary of Commerce.

Now, I think that the Congress should know pretty accurately who is going to compose this board, possessing this authority and judgment which is delegated to it by the Congress. I think in this way we would accomplish that. I think that board should be given a yardstick by which it should measure its judgments and I would propose that the board before issuing an order should give a hearing to the man whose contract is being considered, and that the board should hear all interested parties.

Now then, after that, I think that board should take into account all pertinent facts of the situation, including conditions of wartime production as well as values ventured in perfecting and exploiting such licenses and inventions and the benefits derived by the Republic therefrom.

Mr. LANHAM. Should the yardstick, in your judgment, be fixed by that board, or should it be fixed by legislation?

Mr. MIDDLETON. I would leave it to the board. I would simply give the board this general yardstick to use in its discretion in issuing orders.

Mr. LANHAM. I think that is correct, because it would be a very difficult matter to determine legislatively.

Mr. MIDDLETON. Every case might be different. It is just giving general instructions.

So, sir, except for that and endorsing Mr. Burgess' recommendations, I thank you.

Mr. LANHAM. Mr. Middleton, with reference to the words "if any" in line 6, page 2, if the validity of the patent were brought into controversy, under the act, and authority existed to bring into controversy the patents, and the patents should be determined to be invalid, then there would not be any royalty, or might there be under a contract?

Mr. MIDDLETON. There might be, and that is the point that Mr. Burgess brought up. That is of section—I think it is perhaps 8—if section 2 were amended so that in a suit before a court the Government had no more rights than the licensee had, then the question of validity would not arise. The only thing there is, I do not think that the board should be given the power to cancel all payments of royalties. It is all right to give the power to reduce it, considering all of the surrounding facts.

Mr. LANHAM. Thank you very much.

Mr. SCOTT. Mr. Middleton, could I ask you one question?

Mr. LANHAM. Mr. Scott.

Mr. SCOTT. What do you think as to the right of appeal from such a board?

Mr. MIDDLETON. I would be inclined to say that if you had a board of this type, that you would hardly need an appeal except to a court. I would not set up a second commission; no.

Mr. SCOTT. No; no commission on a commission.

Mr. MIDDLETON. We know from our experience in the last war——

Mr. SCOTT. Appeal to a court is what I had in mind.

Mr. MIDDLETON. We know from our experience in the last war that you got substantial justice done, so that I would only permit an appeal to the courts from this one board, but I would like to see an appeal not limited to the Court of Claims, but to be made to our district courts.

Mr. LANHAM. Thank you very much.

Gentlemen, we will adjourn to meet at 10 o'clock tomorrow morning in the hearing room of the Committee on Rivers and Harbors in this building, room 1304.

(Thereupon, at 12 noon, the committee adjourned until 10 the following morning, as above indicated.)

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

WEDNESDAY, OCTOBER 14, 1942

HOUSE OF REPRESENTATIVES,
COMMITTEE OF PATENTS,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m., in the hearing room of the House Committee on Rivers and Harbors, New House Office Building, Hon. Fritz G. Lanham presiding.

Mr. LANHAM. The committee will please come to order. We have this morning a letter from the Under Secretary of the Navy, Hon. James Forrestal, Acting Secretary of the Navy, under date of October 12, 1942, addressed to the chairman of this committee with reference to this measure, as follows:

DEPARTMENT OF THE NAVY,
Washington, October 12, 1942.

Hon. CHARLES KRAMER,
Chairman of the Committee on Patents, House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: The bill H. R. 7220 to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, was referred to the Navy Department by your committee for report thereon.

Briefly summarizing this bill (1) empowers the head of any Government department or agency to reduce payments of royalties on patented material supplied to that department or agency under license from the patent owner when the rate of royalty is considered by the head of such department or agency to be excessive;

(2) Authorizes the head of a department or agency to determine a fair royalty rate, in view of wartime production, that the license supplier may pay his licensor;

(3) Forbids the supplier to charge to the United States, either directly or indirectly, royalties at a rate in excess of the rate fixed by the head of the department or agency concerned;

(4) Provides that the sole remedy of a licensor aggrieved by royalty rates so fixed shall be by suit against the United States in the Court of Claims to recover such additional sums as will constitute a total that is a fair and reasonable royalty;

(5) Makes available to the United States, in any action brought for the purpose next above stated, any and all defenses that might be pleaded by a defendant in a suit for infringement of a patent as set forth in title sixty of the Revised Statutes or otherwise;

(6) Authorizes the head of the Government department or agency to settle before suit any claim arising under the provisions of the act;

(7) Requires that any reduction in royalties pursuant to the act shall inure to the benefit of the Government;

(8) Permits the delegation, in writing, of the authority and discretion conferred by the act;

(9) Construes as manufacture, use, sale, or other disposition for the Government the manufacture, use, sale, or other disposition of an invention covered by a United States patent by any contractor, subcontractor, or any person, firm, or corporation, for the purposes of both this act and the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. 68);

(10) Makes the act applicable to all royalties directly or indirectly chargeable to or payable by the United States from and after the date of approval;

(11) Provides for expiration of sections 1 and 2 of the act 6 months after the termination of the war, except that as to rights and liabilities accruing prior to the termination of the act, it shall be treated as remaining in force for the purpose of sustaining, nullifying, or defeating any claim or suit arising thereunder; and

(12) Authorizes the head of a department or agency to make rules and regulations and require information necessary to carry out the provisions of the act and makes the provisions of section 10 (1) of the act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, applicable to the owner, licensor, or licensee of a patent or an application for patent covering an invention manufactured, used, sold, or otherwise disposed of for the United States and defines the term "defense contract" as it relates to the operation of this act.

The Navy Department has found that in many instances, manufacturers with whom contracts for the production of material for the Navy Department have been placed are operating under licensing agreements, entered into prior to our entry into the war, binding such manufacturers to pay specific royalties. These royalties under peacetime conditions and for the quantities then being produced may be considered fair and unreasonable, but when applied to the enormous quantities needed for the prosecution of the war, these royalty rates are regarded in some cases as exorbitant, excessive and unfair.

This situation, in a number of instances has been somewhat relieved by negotiations between representatives of the Navy Department and the owners of the patents. This method, however, has not been entirely successful because patent owners are legally entitled to require observance of existing contractural obligations.

The proposed legislation will provide a much needed remedy for these conditions.

There is also some doubt as to whether the provisions of the act of June 25, 1910, as amended (35 U. S. C. 68), are sufficiently broad to cover manufacturers or users operating under license agreement and their subcontractors and sublicensees and to afford protection against infringement suits in the event of the manufacture, use, sale, or other disposition under such conditions of patented articles on orders and under contract with the Government. To eliminate uncertainty and properly and fully to protect such manufacturers and users, including subcontractors and sublicensees, the proposed legislation is considered necessary and desirable.

It is likewise considered desirable to make the legal remedy against the Government exclusive, thus eliminating constant danger of litigation and controversy over royalty payments between patent owners and those manufacturing, using or otherwise dealing with patented articles or processes for or on behalf of the Government.

The provision of section 3 which authorizes the head of any department or agency of the Government to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of inventions, in full settlement of any claim against the United States accruing to such owner or licensor under the provisions of this proposed Act or any other law by reason of the manufacture, sale, or other disposition, is considered desirable.

The limitation of the act to the duration of the war and 6 months thereafter, thus making it a wartime measure, will undoubtedly aid in maintaining the constitutionality of the act.

The Navy Department is unable to estimate the fiscal effect of the enactment of the bill H. R. 7620. It is believed, however, that the bill, if enacted into law, would result in effecting a very considerable saving in procurement cost to the Government.

For the foregoing reasons, the Navy Department recommends early enactment of the bill H. R. 7620.

The Navy Department has been advised by the Bureau of the Budget that there would be no objection to the submission of this recommendation.

Sincerely yours,

JAMES FORRESTAL, *Acting.*

Mr. LANHAM. We have with us this morning from the Navy Department Mr. Ralph L. Chappell, Procurement Legal Division, Office of

the Secretary of the Navy. According to the information sheet before us yesterday, we gave a wrong designation of Mr. Chappell's official position; but he is with the Procurement Legal Division, Office of the Secretary of the Navy, and we will be very glad indeed to hear from Mr. Chappell.

Colonel PATTERSON. Mr. Chairman, before Mr. Chappell takes over, I have a suggestion I would like to present to the committee.

Mr. LANHAM. Colonel Patterson.

STATEMENT OF COL. EARL S. PATTERSON, WAR DEPARTMENT—Resumed

Colonel PATTERSON. Since the hearing yesterday, representatives of the War, Navy, and the Department of Justice, have given consideration to the suggestions made before the committee with regard to section 5 of the bill, relating to the delegation of authority.

We are authorized to suggest to the committee this morning that it would be entirely agreeable to the mixed group, that is, to War, Navy, and Justice, for there to be substituted in lieu of section 5, a new section 5 which would read as follows:

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the redelegation of any power and authority conferred by this Act to such responsible officers, boards, agents or persons as he may designate or appoint.

I want to point out to the committee, if I may, the fact that the language in such section makes it necessary that the delegation of the authority be made under rules and regulations, rather than merely a general delegation. In other words, we have in mind that this power in the Secretary of War would be exercised by a subordinate officer, such as a contracting officer, only under such rules and regulations as the Secretary of War might prescribe.

Now, in adopting that language for presentation to the committee, we have been guided by the other grants of power as to redelegation which now exist in connection with wartime procurement.

I wish to bring to the attention of the committee the provisions relating to the delegation of power given by the Congress in connection with several of the acts. I first refer to the act of December 18, 1941, title II, section 201, an act to expediate the prosecution of the war effort.

SEC. 201. The President may authorize any department or agency of the Government exercising functions in connection with the prosecution of the war effort, in accordance with the regulations prescribed by the President for the protection of the interests of the Government, to enter into contracts and into amendments or modifications of contracts heretofore or hereafter made and to make advance, progress, and other payments thereon, without regard to the provisions of law relating to the making, performance, amendment, or modification of contracts whenever he deems such action would facilitate the prosecution of the war.

Mr. LANHAM. The phraseology of that particular provision would not apply to these royalty contracts, I take it, in view of the fact that they are not between the Government and some contractor.

Colonel PATTERSON. That is true, sir, I believe.

Now, pursuant to that authority given to the President by the Con-

gress under that act, the President subsequently issued his Executive Order No. 9001, which provides as follows:

> The authority herein conferred may be exercised by the Secretary of War, the Secretary of the Navy, or the United States Maritime Commission respectively or in their discretion and by their direction respectively may also be exercised through any other officer or officers or civilian officials of the War or the Navy Departments of the United States Maritime Commission. The Secretary of War, the Secretary of the Navy, or the United States Maritime Commission may confer upon any officer or officers of their respective departments, or civilian officials thereof, the power to make further delegations of such powers within the War and Navy Departments, and the United States Maritime Commission.

In other words, at the present time, insofar as contracts generally are concerned, there is an absolute delegation of authority down from the Secretary of War, in the case of the War Department, to the Under Secretary of War and then in turn to such boards or officers as he may designate.

Now, it may be interesting to the committee to know how zealously the War Department guards this authority given to it to know that at the present time and under this order, insofar as the settlement of claims arising under contracts are concerned, the Under Secretary of War has appointed a committee or board which is made up of high-ranking officers which consider all claims submitted in controversies between contractors and the War Department.

Upon the recommendation of that committee or board, the Secretary or Under Secretary make orders in connection with such compromises.

I also wish to call to the attention of the committee the provisions of Public Law 507, Seventy-seventh Congress, which is known as the Second War Powers Act, referring to subsection 8 of section 341, which reads as follows:

> The President may exercise any power, authority, or discretion conferred on him by this subsection (a), through such department, agency, or officer of the Government as he may direct and in conformity with any rules or regulations which he may prescribe.

Mr. LANHAM. That does not provide for redelegation of the authority unless his rules and regulations so prescribe.

Colonel PATTERSON. Which they always do, sir, necessarily.

It is a physical impossibility for the War Department to operate without the authority to redelegate, and I might say very frankly to the committee that if this bill was passed without such authority to redelegate, it would be practically useless to the Department.

Mr. LANHAM. Yes; I think we appreciate the necessity for some such delegation or redelegation, Colonel. It was simply a matter in our minds that there ought to be some definite fixing of responsibility to avoid confusion and uncertainty, and these are most helpful excerpts from the law.

Colonel PATTERSON. Now, I wish to also bring to the committee's attention——

Mr. LANHAM. When was that Second War Powers Act enacted?

Colonel PATTERSON. The Second War Powers Act——

Mr. LANHAM. When was it approved?

Colonel PATTERSON. The Second War Powers Act was approved March 27, 1942.

I also wish to refer to Public Law 528, Seventy-seventh Congress, which was approved April 28, 1942, which is an act which provides

for the renegotiation of contracts, and I presume the committee are familiar with the fact that each of the Departments, both War and Navy, have set up boards for the renegotiation of contracts. Those boards are composed of both civilian and officer personnal, and in turn there are subboards set up in various other branches whose original findings are submitted to the final board. That board operates again under the Under Secretary of War, and its findings are submitted to him for final decision.

The act that I have referred to, that is, Public Law 528, provides:

(f) The authority and discretion herein conferred upon the Secretary of each Department, in accordance with regulations prescribed by the President for the protection of the interests of the Government, may be delegated, in whole or in part, by him to such individuals or agencies in such Department as he may designate, and he may authorize such individuals or agencies to make further delegations of such authority and discretion.

So that there is no question, insofar as these various acts are concerned, there is complete power of redelegation and it is left entirely to the discretion and the good judgment of the Secretary of War to see to it, or the Secretary of the Navy, as the case might be, to see that the power is delegated to the proper officers.

Mr. LANHAM. May I ask this question there, Colonel Patterson? Could not such a redelegation of power be limited to responsible heads of the departments or at least under rules and regulations that those responsible heads would prescribe, with the omission of such reference to an agency, unless the head of the department—responsible head of the department, would indicate the delegation to that agency?

There has been some fear, by reason of the fact that we have so many of these agencies and they have such different functions, some of them of major importance and some of them of minor importance, that to give blanket authority to an agency to make rules and regulations would make for lack of uniformity and lead to confusion.

Colonel PATTERSON. I do not know that I can answer that question entirely to the satisfaction of the committee, sir. I appreciate your feeling with regard to other agencies than the War Department and Navy Department.

Mr. LANHAM. I do not mean that agencies should not have such authority delegated to them; but within these agencies, in the bill as it is brought before us, they are on a party with the heads of the departments.

Now, if these responsible department heads make a rule or regulation and provide for a redelegation of power to an agency, why, of course, that would seem to be very proper procedure. We realize there must be a redelegation of power, but to give the heads of the various agencies the same authority in this regard that you give to the departmental heads would seem to us to be a little confusing.

Colonel PATTERSON. Well, would you designate, sir, the Maritime Commission as an agency or a department?

Mr. LANHAM. Well, of course, it is in a way an independent branch of the Government, and a very important one, and so far as I am concerned, I have no objection whatever, personally, if necessary, having a direct reference to the Maritime Commission, and I think I stated yesterday in making my suggestion—which was simply one for consideration—not only the Secretary of War and the Secretary of the Navy, but also the Maritime Commission.

I am sure that can all be worked out in some satisfactory way. We are anxious to avoid confusion and uncertainty so that these various manufacturers, patent owners, and so forth, will know how they are operating, if the rules and regulations under which these agencies would operate were promulgated by responsible heads of departments.

Colonel PATTERSON. Well, perhaps my inability to answer the question to the satisfaction of the Congressman is due to the fact that I cannot now think of any agency, as such, which is involved in war procurement which would come within the definitions used, as to not having the proper authority or functions, or whose authority might be questioned.

Mr. LANHAM. I do not think that this bill even prescribes that such agency shall be interested in war procurment, does it? It is just a sort of blanket reference to these things. I think there is no difference in our minds as to what we are seeking to accomplish. It is simply a matter of getting the proper phraseology.

Now, these suggestions that have been made here by you are most helpful, and I am wondering if you have a sufficient clerical force in order that you might have made for the members of the committee copies of your suggested revisions of section 5 and copies of these excerpts from these various laws to which you refer.

Colonel PATTERSON. We will be happy to do that, sir.

Mr. LANHAM. Because in our consideration of the matter in executive session it will be very interesting and helpful to have those before us.

Colonel PATTERSON. I might add to what I have already said with regard to the suggested amendments that we are bringing to the committee at this time, that we have purposely inserted the words "responsible officers, board, or person."

Mr. LANHAM. I notice that.

Colonel PATTERSON. To indicate that there would at least be some greater degree of responsibility in office of the person designated by the Secretary or to whomever the authority was delegated, to perform this function. I think we are all working to the same end in that regard. It is just a question of the particular road we want to take to get to our destination.

Colonel VANDERWERKER. Here are some copies of section 5 that we propose.

Mr. LANHAM. Thank you.

Colonel PATTERSON. I might add, for the purpose of the record, Mr. Chairman, that by the use of the word "responsible" we do not intend to indicate that the particular officer is to be financially responsible for his acts.

I wish also to bring to the attention of the committee the provisions of the Selective Training and Service Act of 1940, that is, Public Law No. 783 of the Seventy-sixth Congress, and this is the act by which you empowered the Congress empowered the Secretary of War and the Secretary of the Navy, and the President to draft our manhood with whom we are fighting this war, and in that case, in connection with the draft act, it is provided in subsection (3) (b) of section 10:

(b) The President is further authorized, under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any authority vested in him under this Act to such officers, agents, or persons as he may designate or appoint for such purpose or as may be designated or appointed for such purpose pursuant to such rules and regulations as he may prescribe.

I think it is safe to say that in practically every instance now in which the War Department or the Navy Department, or the Maritime Commission, are authorized to take action in connection with procurement there is likewise a provision for the delegation or redelegation of authority and it is only because we have found it is necessary and it is only because the strict interpretation of the law with regard to delegation of authority makes it necessary that it be put in the act and not left to conjecture as to whether authority is or is not given.

In addition to that suggested change, Mr. Chairman, I also wish to suggest—and I am authorized to present to the committee now—a new section to be added to that which was given to the committee yesterday reading as follows——

Mr. LANHAM. Mr. Wolverton would like to ask a question before you leave that section 5.

Colonel PATTERSON. Yes, Mr. Wolverton.

Mr. WOLVERTON. Colonel, is it intentional that the proposal which you have submitted to the committee with reference to section 5 should broaden the power of the department head as to the agency or individual to whom he is to delegate his authority?

In other words, it would seem under the reading of section 5 as it appears in the bill, that the delegation is to be to the individual officer, board, or bureau in such department or agency. Would that mean that he would only make the delegation to a board or an agency, or individual that comes under his particular department?

Colonel PATTERSON. That is true, so far as the language of the present section 5 is concerned.

Mr. WOLVERTON. Yes.

Colonel PATTERSON. It is not true so far as the language of the proposed section 5 is concerned.

Mr. WOLVERTON. That is what I wanted to bring out, that while the section as it appears in the bill restricts the power to delegate to a department or agency that comes under the particular delegating authority, your section as you now submit it would permit him to make a delegation to any department or agency regardless of whether it comes under his particular jurisdiction or not. Is that right?

Colonel PATTERSON. It is true. If, for instance, the Secretary of War, the Secretary of the Navy, or the Maritime Commission should decide that the Army-Navy Munitions Board or the Patent Advisory Committee of the Army and Navy should act as a joint committee for the hearing of claims involved in connection with this act, they would have authority to set up such a committee, joint committee of Navy and Army officers to hear and recommend or decide as an advisory board, what should be done in connection with the particular case.

Now, I have no particular brief for that language or for that idea, and I have no hesitancy in saying to the committee that neither the War or Navy Department would object to the limitation in the original section 5 limiting the authority of the Department or agency. In other words, in preparing the new section 5 we did not feel that it was very necessary that that power be enlarged. We were in fact endeavoring to fix its scope in such a way that the committee would feel that whatever action was taken by the heads of the departments in delegation of authority would be done properly.

Mr. WOLVERTON. Well, you have made plain what seemed to me to be the difference between the two sections, the one in the bill, and the one that you propose.

Now, do you think the use of the words "delegation of any power and authority conferred by this act" as it appears in the section which you have proposed makes a difference in the intent or purpose of the language used in section 5 in the bill where it says he may delegate in writing in whole or in part?

Now, do you think there is any difference in the meaning between "delegated in whole or in part" and the use of the words in your proposed section 5, of any power and authority?

Colonel PATTERSON. I do not, sir. I think they are equally comprehensive.

Mr. WOLVERTON. In other words, what I have in my mind is this, by the use of the words "any power and authority," would that relate to the whole power and authority or any part thereof, or would it only relate to the actual power that is given to him?

In other words, he could delegate that whole power and not any part thereof.

Colonel PATTERSON. My present conception of the language, sir, is that there would be no difference.

Mr. WOLVERTON. I was wondering why you used different language than that which is in the proposed bill which seems to leave no doubt that you do delegate in whole or in part.

Why did you make that change? Was there any particular reason why, or did you think that that language would give a different authority or more authority or less authority; or what was the reason for changing the words "in whole or in part"?

Colonel PATTERSON. It was not done with the idea of giving any different authority, or any that additional authority would be given, sir. It was simply this, that section 5 was prepared very largely in the light of the provisions of these other acts which I have read to you, and we attempted to follow pretty closely the language contained in them.

Mr. WOLVERTON. The reason I raised the question is it would seem to me that there should be no doubt as to the right to delegate the whole power or any part of it, and I was, maybe without deep thought, wondering, and it occurred to me when you say "any power and authority conferred," that it might be only the general or original power or authority that could be delegated.

Colonel PATTERSON. That was certainly not our intention.

Mr. WOLVERTON. No; I do not think it was, but I thought in view of the fact that you had not used the words "in whole or in part"—it could have been inserted very easily—that maybe you have a reason for it.

Colonel PATTERSON. Referring to the additional section which the War Department wishes to present to the committee for its consideration—it would be known as section 9 of the bill, and would be inserted for the present existing proposed section 9, making section 9 section 10.

Mr. LANHAM. Do you have copies of this?

Colonel PATTERSON. We will have to furnish copies to the committee.

Mr. LANHAM. Very well.

Colonel PATTERSON. It is a short section, and I will read it at this time:

Nothing herein contained shall be deemed to preclude the applicability of section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or thereafter amended so far as the same may be found applicable.

Now, section 403 of Public Law 528 deals with renegotiation of contracts, and as the committee knows, there is now pending, I believe, a bill which has already been passed by the Senate which amends section 403 with regard to the renegotiation of contracts, and it is thought that because of the fact that it is not known whether this bill would be acted upon by the Congress prior to the enactment of that amendment that there should be no question as to this law being subject to and not acting as a repeal in any way any of the provisions of the renegotiation statute.

Mr. LANHAM. That would give you authority, would it not, to act with reference to the provisions in this bill?

Colonel PATTERSON. I beg your pardon.

Mr. LANHAM. There is a provision in this bill, if I can find the section in which it appears, about deliveries already made under the contracts heretofore existing.

Colonel PATTERSON. No; it does not apply to that, sir; it applies to the cases where we would make a contract in settlement of an existing patent controversy. For instance, if we should, acting under the procedure set up in the bill, say to a contractor, "Pay a dollar a unit instead of $10 a unit royalty," and thereafter enter into a compromise contract with the patentee, agreeing that the particular use should be compensated for at $5 a unit instead of $10 a unit or $1 per unit then if the compromise contract came within the definitions prescribed by the Renegotiation Act, it would also be subject to renegotiation.

Mr. LANHAM. Just where in this bill is reference to that made?

Colonel PATTERSON. That is section 3, I believe, sir, in the original bill that is pending that refers to compromise.

Mr. LANHAM. If deliveries had been made in part and the contract was still in force, why, this renegotiation clause would apply to such contracts, would it not?

Colonel PATTERSON. It would apply as to the contracts between the Government and the Government contractor or manufacturer, but that would have nothing to do with the subject matter of this bill. The renegotiation feature to which it would be applicable under this bill would be only that contract which was made with the Government by the patentee after the controversy arose and in settlement of his patent rights, as for instance, if we should say to the patentee we will pay you $25,000 for everything that has gone before this time, and we want the future use of your patent, and we will pay you $150,000 for the future use of your patent, such a contract might, under the definitions of the renegotiations statute be subject to its provisions and could be renegotiated if it should later be determined that it was excessive or improper.

Mr. LANHAM. That is supposed to be applicable only during the time that we are in war, is it not?

Colonel PATTERSON. Yes, it pertains only to war contracts.

It has been brought to my attention that my statement may be inaccurate as stating that a lump sum settlement of a patent controversy

might be considered as being within the provisions of the renegotiation statute. I intended to convey the thought to the committee that whatever contract was made in settlement of a controversy existing under this bill, if it in turn came within the provisions of the renegotation statute, as amended, then, of course, it would be subject to renegotiation. It is not our intent to enlarge or limit the renegotiation law.

Thank you.

Mr. LANHAM. You have concluded?

Colonel PATTERSON. Yes, Mr. Chairman.

STATEMENT OF RALPH L. CHAPPELL, PROCUREMENT LEGAL DIVISION, OFFICE OF THE SECRETARY OF THE NAVY

Mr. LANHAM. We shall now be glad to hear from Mr. Ralph L. Chappell, Procurement Legal Division, office of the Secretary of the Navy.

Mr. CHAPPELL. Mr. Chairman and gentlemen of the committee, the Navy Department has collaborated in drafting this bill, H. R. 7620, and in submitting it to Congress. I have been designated to present to this committee the situations which have been encountered in naval procurement which have led the Navy Department to do so.

The bill is predicated upon the sound principle that, in time of war, inventions, as well as all other resources of the Nation, should be available to the Government in exchange for reasonable compensation to the owners. Its object is to assure this in the best and most practical and expeditious way.

The act of June 25, 1910, as amended July 1, 1918 (35 U. S. C. 68), goes a long way toward assuring this. It provides that when inventions are used or made by or for the Government, without license of the owner, his remedy shall be a suit against the Government in the Court of Claims for his reasonable and entire compensation. T is act not only makes inventions available for a reasonable compensation, but it eliminates litigation and injunctions against contractors who undertake to supply the inventions to the Government. All contractors stand on an even footing.

This situation does not exist when the owner of an invention has issued licenses calling for the payment of royalties by the licensee to the owner. The act of June 25, 1910, as amended does not relieve the licensee of his obligation to pay the royalties called for in the license.

Mr. LANHAM. And that very fact indicates the necessity for such legislation as this, does ot not?

Mr. CHAPPELL. That is right. Even though he is using or manufacturing the invention for the Government. There is, if the royalties are unreasonable in amount, an anomalous situation with the Government having the broad right to utilize the invention for a reasonable compensation to the owner but unable to obtain the invention from the licensee except by paying, as a proper item of cost, the unreasonable royalty called for by the license. Even if the Government wishes to tell the licensee to disregard the license and not pay the royalty the liability for the full amount of the royalty cannot be avoided and the licensee cannot be relieved of the threat of litigation, namely a suit for breach of contract.

In the usual case the licensee has been manufacturing or using the invention and has the equipment, knowledge and skill necessary for making the invention available to the Goverment most efficiently and speedily. He is the logical source of supply and it would be wasteful where time is of the essence to turn to another source even if equipment were readily available to equip such other source.

The present bill, H. R. 7620, remedies the situation and makes the licensee available as a source of supply at a reasonable royalty. The Government is thus not hompered in exercising its right to utilize the invention for reasonable compensation to the owner of the invention. The invention is utilized through the logical source and the war effort is not impeded.

I do not want to give the impression that all existing royalty contracts call for unreasonable royalties. There are cases, however, where the royalties called for in existing licenses are unreasonable. In many cases this has come about through no fault of either the licensee or the licensor owner of the invention. When two parties enter into a license agreement various factors are considered, and the parties do their best to foretell what will happen during the life of the contract. Royalties are arrived at from considering various factors, including the outlay involved in the invention, the value of the invention, and the probable production of the licensee. The war effort and the huge production involved could never have been foretold when many license agreements were entered into and royalties which were agreed upon as giving the owner of an invention a fair reward on the basis of peacetime production now give the owner of the invention unfair and unreasonable compensation for the invention.

In many cases the owners of inventions have recognized the unfairness of the return and have patriotically agreed to take a greatly reduced royalty, and in some cases they have given royalty-free licenses to the Government. In some cases, however, the owners of inventions have insisted on receiving the full royalty even though unreasonable. The bill, H. R. 7620, will make it possible for the Government to deal with such cases and exercise its right to utilize the invention for a reasonable compensation to the owner of the invention and to utilize the logical agency to exercise this right.

I have several examples which have arisen in connection with naval procurement and which illustrate the problem which this bill H. R. 7620 should solve.

Mr. LANHAM. And with reference to the payments that may have been made under those unreasonable royalty agreements, will this legislation have a retroactive effect that will also enable the equities to be considered and enforced? In other words, where unreasonable payments have already been made, is that water by the mill that we cannot reach, or will this legislation simply have reference to what the future may hold in matters of this kind?

Mr. CHAPPELL. Well, I believe that this legislation will touch primarily royalties which have not yet been paid. However, it is not at all unreasonable to think that in determining what is a reasonable royalty the test might be considered. I do not think there is any specific authorization in the bill and no intention of going back of a situation where the royalty has actually been paid.

Mr. LANHAM. In other words, under the renegotiation statute there would be no opportunity to recoup for the Government unreasonable fees that have been paid.

Mr. CHAPPELL. I do not think in this there would be. If the renegotiation Act could be had to apply, it would be done on the basis of those acts.

Mr. LANHAM. Then our problem is to prevent a repetition of instances of that character that have occurred heretofore?

Mr. CHAPPELL. That is right, and to put all owners of inventions on the same basis, whether or not they have issued licenses. The 1918 act permits the Government to obtain the use of inventions for a reasonable sum, and if there is a license, the act is not applicable, and this merely puts all owners on the same basis.

In one cost-plus-a-fixed-fee contract which is now pending, the estimated cost is $5,230,000. The fixed fee is $313,800. One item of cost is a 10 percent royal which amounts to $550,000. The contractor is bound by an existing contract to pay this royalty to a third party and will incur the liability if he produces the goods. The contractor has been in the business and has the equipment and knowledge and is the logical source for the equipment but the royalty appears to be high since it is nearly twice as large as the contractor's fixed fee. If the present bill, H. R. 7620, were law, this matter could be taken care of easily and under the existing law the only way to reduce royalty would be to appeal to the patriotism of the contractor and get him to reduce his royalty. That may be possible in many cases to accomplish that, and it may not, and we do not like to be put on the speculative basis of having to make such an appeal, particularly when the contractor is deaf to it.

Mr. HOLLAND. Mr. Chairman.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. I would like to ask a question: On that cost-plus basis, would the royalty be figured in the cost first before the costs were put on?

Mr. CHAPPELL. My understanding of the way cost-plus contracts are carried out in the Navy is that costs are estimated only. Thereafter, a fixed fee is determined and after the fixed fee has been determined the Government pays that fee and then pays whatever the actual costs are. Now, I do not know whether the royalty is considered in an item of cost in determining what the fixed fee is to be or not; but the fixed fee is not a percentage fee. It is arrived at through various considerations. I think there is a tendency to use 6 percent of the cost as the fixed fee; 6 percent of the estimated cost as the fixed fee, but I understand that the law prohibits any cost-plus-a-percentage contract.

Mr. LANHAM. You are not executing any contracts now on the cost-plus-a-percentage basis?

Mr. CHAPPELL. No. That is not done at all.

Mr. LANHAM. I think under existing law, as I recall, the 6-percent-fixed fee is the maximum, is it not, and that many of these fees are on a basis lower than 6 per cent?

Mr. CHAPPELL. Some in the Navy are done on a straight-cost basis. I know of such contracts, and I think that the amount of the fixed fee is something that is determined by negotiation and within the limits prescribed by law.

I cannot say whether the particular 10-percent royalty here involved had actually been considered in determining the fixed fee or not. I am under the impression in this particular contract, from the way it came up, that it had not been figured as an item of cost.

In another case involving necessary equipment where available sources are limited in number one contractor who is an important producer of the item has a license calling for a royalty. In one contract alone the royalty called for is $87,000 and other contracts for the same equipment will have to be let. In other words, we have a specific contract with one of the important sources of supply and equipment who is tied to pay a particular royalty and others are not tied to pay the same royalty.

Mr. LANHAM. I think it is very clear that many of these royalty rates in the limited production of peacetime are quite reasonable and yet in the magnitude of our war production would be decidedly unreasonable.

Mr. CHAPPELL. In this particular case, the royalty would probably be fair in times of peace, but the war-time schedules have made the return to the owner unreasonable.

Mr. HOLLAND. Mr. Chairman.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. Most of those royalties are based upon limited production?

Mr. CHAPPELL. That is right.

Mr. HOLLAND. While you have an unlimted production?

Mr. CHAPPELL. Yes; and I think in determining royalties in peacetime negotiation the possible producing capacity of the licensee is a factor that is considered as one of the important determinations in arriving at the royalty.

Mr. LANHAM. Even under the provisions of this act, the compensation which the owner of the patent would receive as royalty, reduced by these agreements, would be far in excess of what he ever could have hoped to get from his royalty under normal conditions.

Mr. CHAPPELL. That is my idea of the way the act would be administered. There would be no intention, I am sure, of any one trying to deprive the owner of an invention of reasonable compensation.

Another case which illustrates the point is one in which the owners of the inventions had a peacetime license with the contractor which was very reasonable. The owners would in normal times receive an annual royalty of from $20,000 to $30,000. In the single contract involved in the Navy Department the owners of the inventions stand to receive well over $100,000, to say nothing of what they would receive on further contracts which are bound to come up because the licensee is one of the most important sources of the equipment.

In another instance several manufacturers who are the main source for certain equipment are obligated to pay royalties which appear to be high in view of certain later developments. A great deal of equipment is needed, and the royalties will reach a large total which now appears to be unreasonably large for the contribution which the inventions have made.

There is a further case involving a highly specialized piece of equipment where the royalty due to a third party was $25 per unit. The price of the equipment was $65 per unit, less royalty. The Navy

Department was purchasing 21,000 units and contemplated purchasing more.

This royalty had been established in peacetime. It was estimated that the units would be built for $250 each although this was a lower price than had yet been established in peacetime production in limited amounts. The owner of the invention was not disposed to reduce the royalty and considerable difficulty was encountered.

I cannot tell you how that case terminated, but it is a good illustration of the way royalty of a fixed amount particularly can become very unreasonable when your production schedules are really established. This was a case where the patentee had really tried to work out a very fair royalty in advance of the war situation.

In another instance where sources of supply are scarce there are two contractors bound by royalty contracts which appear to be unreasonable. It is not practical to establish new sources, and it is doubtful whether this could be done in a reasonable time. As long as the equipment is purchased from the licensed sources the royalties will continue to accrue and even if the Government orders the contractors not to pay the royalties the Government will have to pay excessively in the end. These particular contracts involve both patented and unpatented inventions of doubtful validity.

In another case a contractor is bound by contract to pay a third party a percentage on business done in developments made by the third party whether patented or unpatented. The Navy Department in this case, which involved a fixed price contract, refused to allow the contractor to include the royalty which was over 7 percent in his cost break-down. The contractor reduced the price on the contract and is, I understand, continuing to pay the royalty out of profits. Here we have a case in which the Government has obtained a reduction in price and in which the contractor has reduced his profit, but the owner of the invention has not cooperated. It would seem that if the contractor is willing to reduce his profit the Government should benefit and that the owner of the patent should likewise reduce his return.

In many cases the owners of inventions have been most cooperative and have reduced the royalties even to waiving them. There are cases, however, where the owners have not cooperated and there are enough of them to warrant the remedial measure which is proposed here.

Mr. LANHAM. Have you concluded your statement?

Mr. CHAPPELL. That concludes my statement.

Mr. LANHAM. We certainly are obliged to you, sir, and indebted to you for this very splendid statement, and it is most helpful in giving the picture and showing the necessity for speedy enactment of proper legislation.

Mr. HOLLAND. Mr. Chairman, I have one question.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. Would this act have anything to do with lend-lease articles?

Mr. CHAPPELL. So far as I can see it has no direct application to the lend-lease situation. However if we do purchase materials and then turn them over to the other governments, I think we have all of its benefits.

Mr. HOLLAND. If the other governments purchase under the lend-lease plan, what happens?

Mr. CHAPPELL. I am not really qualified to discuss the matter.

Mr. HOLLAND. Will they have to pay more money for the goods which they purchase?

Colonel PATTERSON. I think I might answer that. At the present time practically all procurement by lend-lease for other countries is through the War and Navy Departments and they are War and Navy contracts, and as such they would be subject to this legislation.

Practically all money now used in connection with lend-lease procurement comes under the War Department and the Navy Department appropriations, with a provision in the bill that the funds may be utilized to a limited extent. I think in the Sixth Appropriation, $12,600,000,000 was for lend-lease purposes.

Mr. LANHAM. I assume, Mr. Chappell, that the Navy Department, in a similar way to the War Department, regards, of course, a patent right as a property right.

Mr. CHAPPELL. That is true.

Mr. LANHAM. Thank you very much.

Mr. CHAPPELL. I might say that we are in accord with what Colonel Patterson has said here. I have made my statement with the understanding that it was to be an endorsement of what he has said. We have worked in close cooperation with the War Department and he has gone into considerable more detail than I have, but he has expressed our thoughts in connection with the matter.

Mr. LANHAM. Thank you, sir. We appreciate that cooperation. We have had indications of it from those who have appeared from the Patent Research Division of the Army and Navy before this committee on several occasions.

STATEMENT OF CONDER C. HENRY, ASSISTANT COMMISSIONER OF PATENTS, DEPARTMENT OF COMMERCE

Mr. LANHAM. We have with us this morning, Mr. Henry, who is the Assistant Commissioner of Patents, and we will be very glad to hear from him.

Mr. HENRY. Mr. Chairman and gentlemen of the committee, I am authorized to speak officially only with respect to the bill as it was originally amended.

The Patent Office has not given any of the various recent amendments to the bill any consideration whatever—any official consideration—as amended today by Colonel Patterson. The Patent Office views the bill as it was originally presented by Colonel Patterson as being primarily a procurement matter and not involving the administration of patent law; that part of the patent laws administered by the Patent Office. The Patent Office has no information as to the necessity for this bill. We are perfectly willing to abide by the decision of the Army and the Navy that the bill is necessary. We believe that it is necessary and, therefore, we subscribe to the bill.

That will terminate my official statement, Mr. Chairman.

Mr. LANHAM. Of course, I feel sure that you as an individual and as a representative of the Patent Office are very anxious that any emergency legislation that may be enacted will not in any way inter-

fere with the permanent operation of our patent system which we have had for a century and a half.

Mr. HENRY. Yes, sir. I cannot express myself too strongly on that, Mr. Chairman.

I think not only is the time inopportune to sponsor any permanent amendments to the patent laws, because of the war conditions, but also the President has appointed a Patent Planning Commission composed of eminent men of the country, the Chairman of which is Dr. Kettering, which is now engaged in the task of studying what amendments, if any, are to be made to the permanent system of patent laws under which this country has prospered and upon which the Army and the Navy are relying insofar as inventions are concerned to win the war.

Mr. LANHAM. We are glad to have had your statement.

Mr. HENRY. I regard this as an inventive type of warfare, both as regards the instruments employed and the tactics with which they are used; and unless we can invent faster than the Axis Powers, to meet and overcome that type of warfare, we run a grave risk, in my opinion, of not winning the war at all, and I think it is no time to consider any permanent amendments to the patent system.

Mr. LANHAM. Mr. Henry, there have been indications in the hearings that a part of this legislation will have a permanent effect. I believe, if I recall, practically all of it, except sections 1 and 2.

Could you give any information as to what permanent effect the provisions other than those in sections 1 and 2 would have upon our patent system?

Mr. HENRY. I think it would have a beneficial effect, Mr. Chairman.

Mr. LANHAM. Beneficial?

Mr. HENRY. Yes, sir. The proposed amendments to the act of 1910, as amended, simply make the act of 1910, as amended, applicable to subcontractors. I think that that is a step in the right direction, speaking personally, you understand, Mr. Chairman.

Mr. LANHAM. I appreciate that.

Mr. HENRY. My present testimony is my own personal opinion.

Mr. LANHAM. In other words, part of this legislation is designed to have a permanent application and would not, in your judgment, militate against a proper application of our present patent system?

Mr. HENRY. No, sir; I do not think so.

Mr. LANHAM. I assume, of course, that all of you representatives of the Patent Office regard a patent right as a property right and I understand that that has been very definitely so declared by the Supreme Court.

Mr. HENRY. Mr. Chairman, the Supreme Court has consistently and uniformly held that patent rights are property rights, and no Federal court, insofar as I am aware, has ever held otherwise.

I have heard statements made that patents are not property rights, by way of argument, but I have not heard any responsible officer of the Government render an opinion that they were not property rights.

Mr. LANHAM. Any further questions to be asked of Mr. Henry?

Mr. HENRY. It has been brought to my attention that the manner in which I stated that the permanent legislation contained in this bill would make the 1910 act as amended applicable to subcontractors. The manner in which I stated that left the inference that it was not applicable now.

I think it is applicable now and this is permanent legislation merely to clarify that section.

Mr. LANHAM. Have there been any judicial decisions with reference to that particular feature that the act of 1910 as amended in 1918 refers to subcontractors and so forth?

Mr. HENRY. I have never looked up decisions on that, but I am informed there are such decisions.

Mr. LANHAM. But whether there are such decisions or not, the provisions of this bill would merely be in the way of clarification of that, if any uncertainty exists.

Mr. HENRY. If any uncertainty exists, this would clarify the situation.

Mr. LANHAM. Are there any further questions? Thank you very much, Mr. Henry.

Mr. HENRY. Thank you.

Mr. LANHAM. Which one of the three gentlemen whose names appear here for the Department of Justice will go on?

Mr. MOTHERSHEAD. Mr. Chairman, Mr. Kreeger of the Department of Justice has made a study of the bill, the original bill as amended, and he will speak for the Department.

STATEMENT OF D. L. KREEGER, DEPARTMENT OF JUSTICE

Mr. KREEGER. Mr. Chairman and members of the committee, I have a short statement to make on behalf of the Assistant Attorney General, Mr. Shea, concerning this bill, H. R. 7620.

The Department of Justice is in full accord with the measure and with its purposes and objectives. The Department also agrees with the amendments which have been proposed by the War Department's representatives.

Mr. LANHAM. We understand that they are also in accord with the statements of Mr. Chappell and are quite in accord with the opinions of the Navy Department as expressed.

Mr. KREEGER. Entirely so, sir.

The Department of Justice respectfully urges that favorable consideration be given to the measure.

Mr. LANHAM. Pardon me again. May I inquire here if that is not also true with reference to the Maritime Commission? Is there anyone who can indicate that?

(There was no response.)

Mr. LANHAM. At least we have heard nothing to the contrary from the Maritime Commission and I assume that they were notified, were they not, Mr. Clerk?

The CLERK. No, sir.

Mr. LANHAM. They were not?

The CLERK. Not directly, except through the Congressional Record.

Mr. LANHAM. I feel sure that they would be in accord with it.

The CLERK. The War Production Board received a notice.

Mr. LANHAM. The War Production Board was notified.

Mr. KREEGER. Mr. Chairman, there were two suggestions which were made before this committee yesterday morning on which we should like to be heard briefly. One was that in suits brought against the United States under section 2 of this bill, the defense that the patent

sued upon was invalid should be denied to the Government. Now, the Department of Justice believes that any such limitation upon the Government's defenses would not only be inconsistent with the essential purpose underlying this bill, but would run counter to the tradition in all condemnation and eminent domain cases.

Mr. LANHAM. May I interpose this question there, Mr. Kreeger?

Mr. KREEGER. Yes, sir.

Mr. LANHAM. In former litigation with reference to patents and patent rights, has the Government had the right and the privilege of attacking the validity of the patents?

Mr. KREEGER. Yes, sir. The present right to sue Government for compensation for the use of a patented invention is, of course, based on the 1910 act as amended, and that act specifically entitles the Government to raise any defense which a defendant in a patent infringemen suit could raise.

Mr. LANHAM. Then the provisions of this bill would make no change in that regard in the law as it now exists?

Mr. KREEGER. That is exactly right, sir. The wording, as a matter of fact, is virtually identical with the 1910 act as amended, and that is that the Government shall be entitled to all of the defenses of a defendant in a patent infringement suit under title 60 of the Revised Statutes. In point of fact, the theory of the two measures, that is, the 1910 act and the bill before this committee, is essentially the same. They are both based upon the rights and powers of the Government under eminent domain. The 1910 act as amended recognizes the right of the Government to show that the patent upon which suit is brought for compensation is worthless for one reason or another.

The Government should be entitled to the same defense under the present bill.

Mr. LANHAM. The essential difference in this bill is that, as I believe was pointed out by Mr. Chappell, with reference to license concerning patents.

Mr. KREEGER. That is right. The whole purpose of this measure is to extend the provisions and scope of the 1910 act to situations in which there has been licensing. Of course, the fact that the licensee is estopped to plead the validity of the patent should not bind the Government, which has never consented to the terms of that license and had nothing to do with fixing the terms. As a matter of fact, whenever suit is brought under this act, the Government has already found by hypothesis that the royalty provision in the license is unreasonable and has ordered the licensee not to make the payment thereunder, but instead, to pay some other sum which is deemed reasonable and fair.

Mr. LANHAM. I wonder if by reason of the fact that present conditions could not be anticipated, that this particular feature was not included in the act when it was amended in 1918.

Mr. KREEGER. That is entirely possible, sir. Certainly the absence of the voluntary reductions in royalty granted by some patent owners even in this bill before your committee, as testified by the War and Navy representatives, would show that it is generally recognized that the proposed procedure would be a fair one.

The other suggestion, Mr. Chairman and members of the committee, which we would like to refer to very briefly, is that the district

court be given concurrent jurisdiction of suits against the Government.

Now, under the present form of the bill, a suit could be brought only in the Court of Claims, and that follows the jurisdictional lines of the 1910 act as amended.

We feel that that should be preserved and that the suggestion about concurrent jurisdiction should be rejected.

The Court of Claims has now had a considerable body of experience in suits against the Government, based upon use and manufacture of patented inventions.

Mr. LANHAM. As I understand, Mr. Kreeger, the basis for that suggestion which was made, I believe, by Mr. Burgess and Mr. Middleton, was that there might be so many of these suits that the docket would get so congested that there would be great delay in the trial of those various cases.

Mr. KREEGER. Yes, Mr. Chairman.

Mr. LANHAM. What is your prediction with reference to that; what is your opinion?

Mr. KREEGER. Well, of course, the representatives of the War and Navy Departments are best qualified to anticipate as to the number of cases that might arise.

I would say that upon the basis of their statements, the percentage could be expected to be a small one. They recognize that the majority of licenses will be fair and it will be a rare case, or shall I say the minority of cases, which will come under this bill. Furthermore, the indications which we have received are that the business of the Court of Claims is generally current, and tends not be be as great during this period of war as it was heretofore.

Mr. LANHAM. Is it not also likely, or true, that by reason of the patriotic spirit and purposes of practically every manufacturer and owner of patent rights, that they will heartily concur in such agreements as they may make with the War Department and with the Navy Department and that the number of suits may be very greatly reduced thereby?

Mr. KREEGER. I think that is one of the best answers to the question, coupled with the express power of the Government to make settlement of claims against it, which we assume will be exercised in a reasonable manner. For that reason we feel in the Department of Justice that jurisdiction should be vested exclusively in the Court of Claims as is now provided in Mr. Kramer's bill.

Mr. LANHAM. Of course, if there be such a multiplicity of suits that there would be undue or unreasonable delay, there could be a modification of the act by amendment to take care of that situation later.

Mr. KREEGER. There could, or possibly it could be taken care of by expanding the number of commissioners, or in some other manner, to expedite consideration in the Court of Claims.

Mr. HOLLAND. If I understood rightly the statements on yesterday, one of the witnesses said that suit might be brought in local courts throughout the land.

Mr. KREEGER. No, sir. I believe that under the 1910 act, as amended in 1918, the only forum which has jurisdiction of suits against the Government for the use of patented inventions by the Government or by its contractors, is the Court of Claims. The district courts have no jurisdiction.

Mr. HOLLAND. The suggestion yesterday or the expression used yesterday was in local courts in any city.

Mr. KREEGER. Perhaps it did go further than I understood; but I understood the suggestion was that the Federal district courts be given concurrent jurisdiction so that claimants could sue either in the Court of Claims or the Federal district court in which they resided, and it is that suggestion to which we are directing our comments.

Mr. LANHAM. You have no special criticism, have you, of the provisions of the law of 1910 as amended with reference to the Court of Claims having jurisdiction?

Mr. KREEGER. No, sir; quite the contrary. It has been very satisfactory.

That concludes my statement, Mr. Chairman.

Mr. LANHAM. Thank you very much, Mr. Kreeger.

It is now 20 minutes of 12. We are going to have further hearings. We have Mr. Fenning present whom we will hear in the morning, and Mr. Emery.

And we have a number of letters here which we will include in the record. That is the list of witnesses so far as I am advised, who want to be heard.

Certain of these letters evidently should be placed in the record, and we will go through these letters, and with the permission of the committe, insert those that are appropriate and pertinent to the legislation.

We will stand adjourned until 10:30 o'clock tomorrow morning.

(Thereupon, at 11:43 a. m., the committee adjourned until 10:30 a. m. the following morning.)

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

THURSDAY, OCTOBER 15, 1942

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PATENTS,
Washington, D. C.

The committee met, pursuant to adjournment, at 10:30 a. m., in the hearing room of the House Committee on Rivers and Harbors, New House Office Building, Hon. Fritz G. Lanham presiding.

Mr. LANHAM. The committee will please be in order. We will insert at this point in the record two communications, one under date of October 9, and one under date of October 15, each from Mr. Chester I. Davis, chairman of the Committee on Legislation, Patent Section, American Bar Association.

(The letters above referred to are as follows:)

AMERICAN BAR ASSOCIATION,
SECTION OF PATENT, TRADE-MARK AND COPYRIGHT LAW,
Washington, D. C., October 9, 1942.

Re patent section—American Bar Association.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

MY DEAR MR. KRAMER: This is to acknowledge your letter of October 3 and thank you for informing me concerning the hearings to be held on October 13 on H. R. 7620.

In view of the fact that this bill has been introduced since the annual meeting of the American Bar Association, the association has not as yet had an opportunity to give the required necessary study of the bill. It is believed, however, that past actions of the American Bar Association on related matters may be of help to the committee.

A resolution submitted to the council of the patent section, American Bar Association, approved by it, and in turn approved by a large majority of the board of governors, was in the following language:

"*Be it further resolved*, That the American Bar Association approves in principle H. R. 6852, insofar as said bill provides means whereby patents and patent licenses may be licensed by the governmental authorities for the duration of the war and in the interest of the war effort."

The above bill relates to compulsory granting of licenses under patents in furtherance of the war effort.

The following resolution expressed the action of the patent section at the annual meeting on August 24-25, 1942, held at Detroit, Mich., and was approved by the house of delegates on August 26.

"The American Bar Association approves in principle H. R. 6828, amending the Property Seizure Act (50 U. S. Code 721), if it be amended to provide for the seizure for war purposes, upon the same terms and conditions as other property, of 'nonexclusive licenses with right to grant sublicenses, or a naked right to grant nonexclusive licenses under patents,' instead of seizure of the patents themselves on the ground that the seizure of such license rights gives to the Government the power to use the inventions and authorize others to use them

for any purpose and to any extent but without depriving the patent owner of the right to use his invention himself."

Another resolution which expressed the action of the section at the meeting in Detroit and likewise approved by the house of delegates was as follows:

"*Resolved*, That the American Bar Association is opposed to any use of patents that impedes the prosecution of the war; that it not only continues to endorse H. R. 6812 granting the Government additional wartime power over patents and providing for just compensation of the patent owner for the use of his property, upon which bill no action has yet been taken by Congress, but it also offers its cooperation in the immediate preparation and submission to Congress of any additional emergency legislation that may be needed."

Respectfully,

CHESTER L. DAVIS,
Chairman, Committee on Legislation, Patent Section,
American Bar Association.

COMMONWEALTH BUILDING,
Washington, D. C., October 15, 1942.

Re Patent section—American Bar Association.

Hon. CHARLES KRAMER,
Chairman, Patents Committee,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Supplementing my letter of October 9 concerning H. R. 7620, I desire to call the attention of the committee to a resolution adopted by the patent section of the American Bar Association at its convention, held at Detroit on August 24–27, 1942.

The resolution is in the following language:

"That the section go on record as approving in any bill before Congress, the inclusion of patents on the same basis, entitled to the same consideration, no greater, no less, than its afforded owners of other types of property."

Respectfully,

CHESTER L. DAVIS,
Chairman, Committee on Legislation, Patent Section,
American Bar Association.

Mr. LANHAM. We shall conclude the hearings this morning and we have to appear before us two witnesses, so each can be expeditious in order to accommodate the other. We are to hear from Mr. Karl Fenning, and from Mr. James A. Emery, general counsel, National Association of Manufacturers.

Mr. Fenning, you may proceed at this time.

STATEMENT OF KARL FENNING, WASHINGTON, D. C., REPRESENTING THE AMERICAN PATENT LAW ASSOCIATION

Mr. FENNING. Mr. Chairman, I have been requested by the board of managers of the American Patent Law Association to read a short communication into the record, if I may.

This, I may say, was prepared under an emergency situation, in view of the bill as introduced in the House, and the various amendments which the War Department have presented to you after its reconsideration, have not been before the American Patent Law Association.

The American Patent Law Association approves Government regulation of royalties to be paid by the Government under patents during the emergency of war conditions.

It further recommends that H. R. 7620 be amended to incorporate the following provisions:

(1) Page 2, lines 3 and 4, cancel "of such fact" and in lines 4 and 5 cancel "in said notice or" and in line 5 after "thereafter," and before the comma, insert "not less than 30 days, within which time a hearing shall be granted if requested."

(2) Page 2, line 8, after "production," and before the comma, insert "and royalty rates applicable to similar inventions."

(3) Page 2, line 20, cancel "written notice" and insert "The order." Line 22, change "two" to "five."

(4) Page 3, line 9, after "production," and before the period, insert "and royalty rates applicable to similar inventions."

(5) Page 3, line 10, after "may" [illegible] "only."

Lines 11 to 13, cancel "pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise," and substitute in place thereof "availed of by a licensee in a suit for recovery of unpaid royalties."

(6) Page 4, line 11, cancel "if already paid by it to the licensee," And substitute in place thereof "for payment made by it to the licensee after the effective date of the order provided by section 1 hereof."

Mr. LANHAM. Those are the only revisions requested?

Mr. FENNING. Those are the only revisions requested.

Reasons for the proposed revisions:

(1) This proposed revision requires that the licensee be served with notice in advance of the contemplated reduction of royalty so as to afford opportunity for negotiations, and further requires that the order fixing the new rate of royalty shall not be entered in less than 30 days after the date of the notice.

Mr. LANHAM. You mean by that, that the different rate of royalty payments would not become effective until 30 days had elapsed?

Mr. FENNING. If there is an agreement, then, of course, there is an agreement. If there is not an agreement, then we are making the suggestion that the order be not effective until after 30 days, not after hearing, but after notice.

It is to be effective within 5 days after the order.

Mr. LANHAM. What is the reason for the elimination "of such fact." Is it surplusage?

Mr. FENNING. No; because it here says "notice of such fact." Notice of such fact. Now, it is not a notice of a reduction, but it is a notice of intention to reduce and the reduction is made by a subsequent order, at least, as the section is redrawn, as I understand it. In other words, a notice is given that you are going to reduce and then the order makes the reduction.

Then revision (2) requires that royalty rates applicable to similar inventions be taken into consideration in determining what is fair and just as well as the conditions of war-time production.

We have inserted that they shall take into consideration the royalty rates applicable to similar inventions and as well as war conditions.

Mr. LANHAM. The rates will depend somewhat upon quantity production.

Mr. FENNING. Yes; the war-time condition is left in, but this also should be considered so that similar inventions shall be treated similarly.

And, that is also with respect to the revision No. 4 which makes the same insertion.

Proposed revision 3 allows 5 days before the order becomes effective to take into consideration mailing time to the Pacific coast, rather than 2 days, in bill as drawn.

(5) Proposed revision No. 5 restricts the defenses available to the United States in a suit in the Court of Claims to those which can be used by a licensee in a suit for recovery of unpaid royalties. In the suit contemplated by this bill the Government steps into the shoes of the licensee in defending for nonpayment of stipulated royalties and should be in no better position with respect to available defenses than such licensee.

Mr. LANHAM. Well, how about the matter of attacking the validity of the patent which the licensee cannot do?

Mr. FENNING. No, the licensee cannot do that.

Mr. LANHAM. I say, no licensee can. Do you think that the Government should be restricted in matters of this character, in wartimes, from attacking the validity of the patents? It would have that right in the original owner against the original owner, would it not?

Mr. FENNING. If there were no license agreement.

Mr. LANHAM. Yes.

Mr. FENNING. But here the Government goes to a manufacturer and says, "You have a license. We are going to restrict the license, and we are going to pay you some royalty. We are going to let you pay the inventor some royalty." Therefore, the Government in effect says that the Government is going to take the license. Now, if they are going to take the license, they would be in the same position as any other licensee, and that is what our amendment is doing here.

Mr. LANHAM. How would the Government be able to reduce the royalty rates if it is restricted to such defenses as a licensee might have against the owners?

Mr. FENNING. The right is given by this, under this bill, because of war conditions.

Now, to reduce the royalty, is the right to destroy, and does not have anything to do with war conditions. That is merely saying, "We are not going to pay you at all."

Now, the Government here, the whole purpose of this statute is not to say that the Government will not pay anything, will not allow any royalty, but is to say that the Government will allow a lesser royalty.

Now, if it allows a lesser royalty, then it should not be allowed to reduce that royalty to zero, else that can be done immediately this bill passes.

Mr. LANHAM. Even in the face of the invalidity of the title?

Mr. FENNING. No; for this reason: If that provision is not in here, if that limitation of defense is not in here, every purchasing officer of the Government, the day after this bill passes, may write a letter to every manufacturer and say: "You can pay nothing in royalties." Every inventor, every patentee, will be relegated to the Court of Claims to sue after the war is over.

Mr. LANHAM. Well, let me ask you——

Mr. FENNING. Here the Government is coming in and saying, You have got a license. It has been negotiated. The patent must be valid or you as a manufacturer would not be paying license fees under it. Now, we are going to step into your shoes as licensee,

and if it steps in as licensee, into the licensee's shoes, and pays or authorizes the payment of some royalty, then it is a licensee.

Mr. LANHAM. Well now, I understood the testimony of Mr. Henry yesterday to be that with reference to the provisions of this bill which are designed to be permanent, that the Patent Office had no objection to it.

Mr. FENNING. Well, this is not a Patent Office matter. Mr. Henry's statement, as I understood it was, so far as the operations of the Patent Office are concerned, it has no objection, because this particular thing does not affect the Patent Office. It affects the purchasing agencies only and affects the Court of Claims. The matter of defense is not a matter that the Patent Office ever is concerned with, and this bill, as it stands, will have no effect on any one within the Patent Office; it does not even say that the matter shall be secret; it does not say that this order will have to be recorded in the Patent Office.

Mr. LANHAM. Of course, my inquiry was directed to the solicitude of the Patent Office, which it necessarily has with reference to the preservation of our patent system.

Mr. FENNING. I may have misunderstood Mr. Henry, but my understanding of Mr. Henry's statement was that so far as the Patent Office is concerned, it sees nothing in here which will interfere with the Patent Office as such. I may be wrong about it.

Mr. LANHAM. The last provision eliminates—this is section 4, page 4, line 11.

Mr. FENNING. This eliminates the possibility of the Government recovering from the licensee for royalties already paid over to the licensor. The redetermination of royalty rates should not be retroactive to a date prior to the effective date of the order and any revision should be limited to payments made after that date.

Mr. LANHAM. What about that provision in respect to the further suggested amendments made yesterday by the War Department with reference to renegotiations, with reference to renegotiations of contracts?

Mr. FENNING. This has no effect, as I understand it, on renegotiation of contracts. This bill does not have anything to do with the contracts which the Government has, so far as renegotiation is concerned. This makes it possible for the Government to substitute itself in place of one of the contractors, not in a contract with the Government, but in the contract which that contractor has with the patentee.

Mr. LANHAM. Well, if it were subjected to the situation of the licensee with all of the limitations upon the licensee under existing law, why, this whole act would be inoperative, would it not?

Mr. FENNING. Oh, no; not at all.

The question to be determined, so far as this act is concerned, is how much royalty.

Mr. LANHAM. But, that is determined in the original contract between the owner of the patent and the licensee and the licensee cannot dispute that, and if the Government has no further authority than the licensee, the Government in court could not dispute it or alter it.

Mr. FENNING. This bill specifically gives the Government the right to reduce that; to renegotiate the license contract or to take over that contract.

Mr. LANHAM. I appreciate that.

Mr. FENNING. Now, when the Government takes over that contract, then under this bill, the Government is given authority to reduce that royalty and in the suit in the Court of Claims, the Court of Claims must determine what is the reasonable royalty, or not reasonable, as the term is used here—the fair and just royalty. The licensee cannot say he should not pay any royalty; he could not say, "Your patent is invalid," because he admits it.

Now, the Government takes the place of the licensees and it should not be allowed to do the thing which it could do as this bill now stands.

Mr. LANHAM. But, the War Department and the Navy Department recognize the patent right as a property right. Is it not an assumption that they are going to be unduly drastic in reducing royalties to zero, under the operation of this bill?

Mr. FENNING. Remember the words "if any" appear twice in section 1. That is, it now may say what royalties "if any."

Mr. LANHAM. I imagine that that has to do more with the validity of the patent than it does with a right under it.

Mr. FENNING. It says royalty. It does not say anything about validity. It says royalty. Nothing in this whole bill has anything to do with validity, excepting the defense which is given to the Government, and that is done by—I almost said by innuendo—but by indirection.

Mr. LANHAM. I do not know whether you get exactly what I mean. If I am incorrect in my assumptions, I wish to be corrected. I understand that as against the owner of a patent, the Government in litigation now may attack the validity of that patent. Is that correct?

Mr. FENNING. If the Government has no contract with the owner.

Mr. LANHAM. I understand; but the Government may attack its validity?

Mr. FENNING. It does regularly attack the validity.

Mr. LANHAM. Well, now, if it is placed in litigation under this act, in the position of the licensee, and the licensee cannot attack the validity of the patent, why then the Government, though they are materially concerned in the matter, cannot attack the validity of the patent.

Mr. FENNING. That is quite right.

Mr. LANHAM. And even if the the patent were invalid the Government would have to go ahead and pay royalty rates?

Mr. FENNING. Yes, sir; royalty, and it should, because it is not saying at the time it reduces the royalty, it is not saying either to the manufacturer or to the inventor, the owner of the patent, "We won't pay any attention to your patent. Your patent is invalid." We are saying to him, "We are going to pay a royalty."

Mr. LANHAM. I am just assuming that the inclusion of the words "if any" was predicated upon the statement that I made with reference to the position of the licensee.

Mr. FENNING. So far as I know "if any" is put in for the purpose of making it possible for an order to reduce the royalty to zero.

Mr. LANHAM. There is no intention, as I understand it, to do that, and I think that that ought to be clearly expressed in these hearings in order that the legislative intent may be known—for the Government to requisition patents, is there?

Mr. FENNING. This makes it possible and, of course, the 1910 and 1918 acts do exactly that. This makes it possible when a contract has already been entered into between the parties.

Mr. LANHAM. Operation under the 1918 act has been rather satisfactory, has it not? I understand that there has been practically no criticism.

Mr. FENNING. I beg to differ with you. If you will look at the literature on the subject you will find very vigorous and considerable opposition to it. It is generally said, I think, that one might just as well not sue the Government. Recoveries have been few and far between.

Mr. LANHAM. And the purpose of this particular measure, as I understand it, is simply to take care of deficiencies in the 1918 act and to make it applicable to situations which are not included in the act as it now exists.

Mr. FENNING. I would not say that, because only one section refers to the 1918 act, and that section specifically, especially in view of the new amendment which the War Department has brought in——

Mr. LANHAM. Mr. Chappell in his testimony yesterday gave a rather clear explanation of the respects in which this particular act was supposed to meet what was thought to be a deficiency in the 1918 act.

Mr. FENNING. Well, I did not understand that the deficiency of the 1918 act which is to be met goes any further than taking care of subcontractors.

Mr. LANHAM. Subcontractors?

Mr. FENNING. That is not involved with the license fees.

Mr. LANHAM. Now, I understand that, but also with reference to the proposition of these licensees and the position of the licensee. At least I so understand his statement.

Mr. FENNING. I did not so understand. I did not follow that. Putting it this way, the 1910 or 1918 act; the 1910 act as amended in 1918, contemplated that the Government says to the inventor, "I will pay no attention to your patent."

Now, this bill, on the contrary, says "I am paying attention to your patent and I will pay you something." The question is how much.

And, all this bill intends to do is to make it possible for the Government to say, "I want to pay you as much as is fair and just now" and secondly to say, "If you sue, you may recover more." There is no intention in this bill to say, "I will not give you anything." On the face of it——

Mr. LANHAM. No; I understand the intention of the act is that it simply is a reduction of the royalty by reason of the great increase in production which, of course, could not have been anticipated and which is due entirely to the war times and a rate which for normal commercial production would be perfectly fair and reasonable would be unreasonable in the magnitude of the present production.

Mr. FENNING. Let me say another thing to you, if I may. What this bill proposes to do is to say to the contractor who has an agreement to pay royalty, "You now have an agreement to pay 10 percent royalty.

You pay only 5 percent royalty for instance, and we will assume the remainder of that royalty."

The inventor sues in the Court of Claims to recover the remainder of that royalty. The Government sets up invalidity. He is given no royalty at all. Cannot the inventor, the next day, sue the contractor who is under contract with him to pay that additional royalty and sue him for that royalty? You are breaking a contract. You are taking away the man's right to his royalty.

Now, if you are going to substitute the Government in the place of one party to the contract, then the Government should be substituted in the same situation that that one party to the contract is. Else, you are merely breaking the contract entirely and saying "You do not have any rights."

Mr. LANHAM. In other words, you think the Government should absolutely be subrogated to such right as the license has and no others?

Mr. FENNING. That is the only way the Government can protect the contractor, because the contractor is subject to this contract.

Mr. LANHAM. You mean the only way it can protect the original contractor as between the patent owner and the licensee.

Mr. FENNING. Yes.

Mr. LANHAM. But, the whole purpose of this as I understand is that as the result of increased production, the Government should be permitted to modify that contract.

Mr. FENNING. Modify it, yes, but not abolish it.

The bill as drawn will say that it might invalidate it, and put that in as a defense, and abolish the contract entirely. And, that I understand is a different situation.

In addition the American Patent Law Association also recommends that the bill be amended to provide that the Government may not collect from the licensee, under a "save harmless" clause, money recovered by the licensor in a suit in the Court of Claims under section 2, because such recovery would in fact be money withheld from the licensee by the Government under section 1.

Possibly a word of explanation is in order. It is not uncommon in Government contracts for a clause to be put in providing that the contractor will save the Government harmless from patent infringements.

Now, here the Government is saying to a contractor, "We will reduce the royalty you must pay. We will substitute ourselves for you and defend you." Under those circumstances, the Government should not include in that contract a provision that if it loses and has to pay additional royalties then the contractor will have to pay it.

That will be what the save harmless clause will mean. In other words, if the Government is to assume the royalty then the Government should not, if it loses the suit for that royalty, come back on the contractor who has entered into the contract on a lower basis.

That is the purpose of putting this in.

The American Patent Law Association further says:

"It is appreciated that the present bill, in giving authority for action to each head of a department or agency, may be productive of nonuniformity in the treatment of different patented inventions, or even the same patented invention if embodied in devices used by a plurality of the departments or agencies. Furthermore, the fact that the determination of reasonable royalties may be delegated without limitation to subordinates is looked upon with considerable apprehension.

It would be decidedly preferable if an interdepartmental board were set up to determine the royalty to be paid under the principle contemplated by H. R. 7620 and it is recommended that such interdepartmental board be established."

Mr. LANHAM. Have you any recommendations as to the personnel of such board?

Mr. FENNING. The Patent Law Association in the emergency went no further than that. If I may say a word for myself now and inasmuch as that particular thing is uppermost, my own impression is that the appropriate scheme of operation would be to allow the contracting officer to send notice to the parties or allow whoever is interested in the contract to send notice to the parties that he thinks the royalty rates should be reduced and set what he thinks should be the reduced rate, and within 30 days thereafter, either party, the contractor, or the owner of the patent, should be allowed to insist on a hearing. That hearing should be before a board, and I would say that the board should be made up, possibly, of the Commissioner of Patents, or a representative of the Patent Office, as chairman; of a representative of the War Department; of a representative of the Navy Department, of the Maritime Commission, and some other purchasing department, possibly the Department of Justice—that a 5-man board be set up, and require that board to give a hearing and determine what shall be the reduced royalty.

In the meantime, as soon as the notice is given, let all actions under the royalty be suspended; that is, let no royalty be paid, and let matters stand in that position at the day of the notice; then let the board make the report within the 30-day period, and issue the order.

Let that order be effective as of the date of the original notice and give the right to have that board reviewed by a court. I should say, in view of the situation in the Court of Claims, after the past war, that that review might better be in a Federal court wherever the owner of the patent resides, because the question of the royalty will be based largely on the character of the manufacture: the testimony with respect to the royalty should preferably be taken where those who have done the manufacturing live, rather than bring everybody to Washington.

After the last war the Court of Claims was pretty well clogged with its work. There are pending in the Court of Claims at the present time, I understand, suits with respect to alleged Government infringements during the last World War which have not yet been terminated, and it is rather hard for a man to wait as long as that to get money, if he is going to get it. The district courts are operating under the new Rules of Civil Procedure so that they must act promptly, and they do act promptly. The Court of Claims, because of its make-up and statutory authority does not work under the new Rules of Civil Procedure. It works about the way the Federal courts worked in 1811, and for that reason, among others, it is very much clogged. I think it is preferable to have the matter turned over to the courts.

That board could be provided, and it seems to me there would be no losses anywhere. It would make it possible to at least have the inventor feel that he has had a fair deal rather than to have a letter written to the inventor by some one fairly well down the line in one of the departments saying, "You won't get so much royalty as you did," without giving him a hearing or anything of that sort.

Section 2 provides for a suit to be brought in the Court of Claims. It does not say when the suit may be brought.

The Court of Claims is somewhat peculiar in its jurisdiction and in its activities with respect to patent infringement. If the Government is continually infringing a patent, the Court of Claims will give no recovery for anything which occurs after the day the bill is filed in the Court of Claims. There is a general statute of 6 years' limitation, so that if there is continuing infringement, there must be a new suit filed at least every 6 years, or a supplemental suit filed. That all means, as I understand it, that if the order is issued under this bill and the royalty reduced, and the owner of a patent files a suit the next day in the Court of Claims, he will recover, if he recovers anything, 1 day's royalty. He will have to wait 6 years, or some subsequent time, to file another suit to recover his second quantity of royalty.

There is nothing here provided that the Court of Claims in the judgment shall make a finding as to the new royalty, and providing that that royalty shall be recovered throughout the war or during the time of activity. Nor is there anything here limiting the time when a suit should be filed.

It seems to me that it would be desirable to put a limitation in here as is put later in the bill that the suit should be filed within 6 months after the end of the war, or give the patentee the right to sue within some definite time after the war is over so that he would not be bothered with suits during the war.

Mr. LANHAM. Do you not anticipate, Mr. Fenning, that most of these contracts will be determined by agreement and that in view of the fact that these gentlemen who have appeared before us have stated that the greater majority of those who are called in to discuss these matters are quite willing to enter into an agreement with the Government, that these suits will be very greatly reduced?

Mr. FENNING. I do not think so, for this reason: Here you are definitely saying to a man, "You do not have to agree. You will get some royalty anyhow and you can sue for more later on."

Now, during war, the psychology of the inventor is such, as it is with the most of the rest of us, that we want to do anything we can to help win the war. Let the matter go. But after the war is over, they will say, "Well, now, what can I do. How can I get some money. Times are hard." They will reserve this right to sue later on and sue.

During the war there is very little litigation initiated in the Court of Claims on Government activities. They wait until the war is over and nobody will say they are unpatriotic and then sue.

Now, if you pass this particular bill, it seems to me that most of the inventors, most of the men who own patents, will say, "Why should I negotiate anything with you. I have everything to lose. You fix what you say is a reasonable royalty and let it run along while the war is on and then I will see you fellows later on."

Mr. LANHAM. Of course they are going to get a great deal more money on account of increased production than they would get from their normal commercial pursuits in time of peace and if they enter into a legal agreement with reference to royalty, they will get more than they would have received. Do you not think that those agreements will be more or less conclusive and binding in the Court of Claims?

Mr. FENNING. If they enter into such an agreement, but I think

this bill which gives the Government the authority to fix the royalty will have two results. First, it is going to stop negotiations. They will say, "Fix what you want. You are going to do it anyhow, so fix it."

In the second place, the inventors will say, "Why bother about it now. There is a war on. I am busy. I am making things. You fix what royalty you think is reasonable and I will have to accept it for the time being and then we can straighten it out later." Now, if that is not so, if there are only going to be one or two such cases, I do not think it is worth the time of any of us attending these hearings to fix one or two cases. If we are not doing something which is worth while, then it does not seem to me it makes much difference what sort of a bill we write, but if we are writing something which is going to be worth while, going to amount to something, do something, I do not think we should not say that there will only be a few people and that it does not make any difference. We ought to try to fix it right just for the few. You may find that the few, instead of 2, is going to be 2,000—it is entirely conceivable—because there is a great deal of invention involved in the war.

You understand, of course, that one thing which must be kept in mind is this: We have gotten beyond the days when we could fight a war as our ancestors did in the Revolution. This is a war carried on with instruments produced by inventors. The entire war industry is tied up with inventions. What we have got to do, as I see it, is, as Mr. Henry suggested yesterday, and as you have suggested, we have got to keep the patent system alive. We have got to give more impetus to a man to prepare him to invent. We have got to do everything we can to build up the patent system at this time. We should give him every possible conceivable right we can think of to make his invention worth while.

Therefore, it seems to me that we should make it possible for him to feel, when a rate is reduced, that he has had a hearing, and not make it possible when the rate is reduced for him to feel, "Well, I will take this now. Later on I will try to get justice," because at the present one of the great objections of business people at the present time is that they have to do too much negotiating. They cannot spend enough time in actual manufacturing, producings goods, and these delays until after the war seems to me a highly desirable thing.

Now, section 3 provides that a claim may be settled, but it says it may be settled only before suit.

Now, I do not think that that is sufficient. I see no reason that merely because a man sues in the Court of Claims, the suit should not be compromised. Many suits in the Federal courts and in other courts are settled after suit is brought. Then the people get down really to business, and they think they have got to do something. So I would suggest that on page 3, line 21, after "instituted" the words "or in settlement thereof" be inserted——

Mr. LANHAM. "Or in settlement thereof"?

Mr. FENNING. Yes. I do not know how many is going to be available for this sort of settlement. The settlement may be 3 years after the appropriations have been made for purchasing the individual goods which were involved. The fiscal year having

terminated, money being no longer available under that contract, I do not know where the money is going to come from to settle these particular suits, and I think it might be well at the end of section 4 to provide that payment of, or settlement may be made from any appropriation available for similar goods, or something of that sort, or from any appropriation in the department, so that when a man gets a settlement he gets some money, rather than a verbal settlement, and not have to come to Congress and ask Congress for an appropriation to pay these individual settlements.

I suggested to you that it is not uncommon in Government contracts for the contracting officer to put in a so-called hold-harmless clause.

As I understand it, this bill, and the act of 1910 as amended in 1918, contemplate that the Government believes that when it infringes a patent it should pay the inventor for that patent.

I think that is the basis of the entire thing. That, as I see it, that is the instructions Congress gives to the purchasing agency.

Now, not infrequently—in fact at one time by a general order of the Comptroller General, as I understand it, or some official who has to do with purchasing—a contract read this way—the Government gives a man a contract to furnish what it needs, and then instead of saying if the thing you give us infringes a patent, the patentee can sue us in the Court of Claims, and recover, they say to the contractor, "You must put in here a provision saying, although you furnish the thing to us, we use it, and we get it, you must hold the Government harmless, against a suit for patent infringement, with respect to the very thing which the Government has ordered."

In one instance, a man was given an order for a device. He was required to hold the Government harmless with respect to that device—with respect to the patent infringement on that device, and he was required to deposit with the Government a bond which would run for 17 years, for the full amount of his contract price, meaning that for 17 years he would have no use for his money. I may say, that in that instance, the manufacturer did not accept the bid from the Government, and the Government did not get the particular thing which it needed.

It is not an exceptional thing for a man to manufacture something for the Government with a hold-harmless clause, the contract to be settled, everything be given to him; the Government to use the goods, and the man to get his money and go on about his business, and thereafter, the patentee files suit in the Court of Claims against the Government for infringement with respect to that particular device.

There is a clause in the contract saying that the manufacturer must hold the Government harmless if there is a patent infringement suit.

Therefore, the man thinks that that is a suit really against him, and not against the Government. He comes to the Court of Claims and says, "I would like to intervene and take care of that defense." The Court of Claims says, "No; we have no jurisdiction over you. We have jurisdiction over the Government. The Government must carry out that defense."

The Department of Justice generally allows the manufacturer to participate in the defense, if he wishes to do so, but the Government controls that defense.

At the end of the suit if judgment is entered in the Court of Claims against the United States Government for a certain amount of money—remember the contract has already been settled years ago—then the Government goes to the contractor and says, "You pay us this judgment in the Court of Claims and also pay us for our expenses in conducting the suit." And, if the man does not do so he is sued by the Federal Government and the Federal courts say, "You agreed to do that, and, therefore, the money must be paid by you."

Now, to my mind, that procedure is entirely contrary to the instruction, the intent of Congress in saying that it wants to be responsible for any infringement of the patent which it infringes.

For that reason I should like to see added to the end of section 6 something to this effect.

And no contract for manufacture, use, sale, or disposition for the United States shall contain any clause holding the Government harmless for any patent infringement with respect to any matters specifically ordered by the Government.

I think Congress has already instructed or intended to instruct by the 1910 act, its purchasing agents to refrain from such contracts; but the act has been very largely abolished by this hold harmless clause, and I think it should be put in and since you are now amending the 1910 act here, this certainly is an appropriate time to say one reason you are passing this act is that you want to act fairly with such things as patents, the Government wants to pay for what it gets, and I think you ought to insist upon that being done throughout.

I have just one more thing, I think, Mr. Chairman.

I should like to express my horror at what the War Department has presented to you originally as section 9 and now in the second revision of the bill as section 10. That says:

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

You may remember that the N. R. A. was held unconstitutional by the Supreme Court in ligitation which was conducted by a poultry dealer. It cost him so much that he went bankrupt and went out of business, but he succeeded in having that act held invalid.

If this type of reservation had been in the N. R. A. act, we would still be operating under the N. R. A. act, because that invalidity, by this clause, would not have been effective to any other individual and the Government the next day might have sued the man next door who was still in the poultry business.

Now, if he had had money enough to go to the Supreme Court he might have had that held invalid with respect to him; but if he had not, he might not have had it held invalid in respect to him.

I was brought up with the feeling that we were operating under a Government which believes in equality under the law, and it seems to me that that statement which says that if a section of this act is invalid with respect to one person, it shall not be invalid with respect to another person, does not promote equality under the law.

I feel personally that if this type of clause ever gets to the Supreme Court the Supreme Court will say that that section itself is invalid and consequently the entire statute is invalid.

For many years Congress found it sufficient to put in statutes a statement that if one section of the statute is held invalid, it shall not affect the other sections.

I think no one has any particular objection to saying that if one section is held invalid it will not affect other sections. But to say that when invalid with respect to one person or one set of circumstances, that it shall not be invalid with respect to the same person with respect to another set of circumstances or with respect to another person in the same set of circumstances, you are doing a thing which to my mind is breaking down our entire system of government.

Mr. LANHAM. We thank you very much.

Mr. HEIDINGER. If we strike out the last two lines of that section, I assume, in connection with wour suggestion, that that might do it.

Mr. FENNING. Yes; that would do it.

STATEMENT OF CONDER C. HENRY, ASSISTANT COMMISSIONER OF OF PATENTS, DEPARTMENT OF COMMERCE—Resumed

Mr. HENRY. Mr. Chairman, may I be heard for a moment, please?

Mr. LANHAM. Mr. Henry.

Mr. HENRY. Some question was raised as to what I said with respect to the last paragraph of section 2. That is the section which gives the Government the right to raise all defenses in a suit against the licensee.

I would like to call the attention of the committee to the fact that section 2 is temporary and not permanent legislation. If it were permanent legislation, I would most strenuously object to it, because I think that the Government in a suit should not be placed in any better position than a private citizen.

I would like to supplement that statement with this remark——

Mr. LANHAM. That is also true of section 1, as I understand.

Mr. HENRY. Section 1 and section 2.

This bill was designed primarily as war time legislation to meet the needs of the Army and the Navy. For that reason the Patent Office subscribed to the bill as it was originally amended by Colonel Patterson as he discussed it on the first day of this hearing.

I think that this bill should be limited to the duration of the war and 6 months thereafter, in all respects, except for section 6, which relates to the act of 1910. Therefore, I suggest that in order that there will be no uncertainty this is wartime legislation, considered hastily and not considered by the Patent Planning Commission, that on page 5, in line 8, the bill be amended as follows:

Strike out the figures "1 and 2" and before the word "Sections" insert the word "All"; and after the word "Act," insert "except section 6."

I do not agree with Mr. Fenning that section 6 should now be amended permanently in any other respect.

Mr. LANHAM. Well now, are you speaking of section 6 as presented in the modified bill?

Mr. HENRY. I have no objection to section 6 as it was finally rewritten. I do object to any further amendment to it as suggested by

Mr. Fenning. I think there is a great deal of merit in what he had to say, but I think the matter is so debatable that it would and ought to require serious study by the body constituted by the President to do just that work.

Mr. LANHAM. We will now have the pleasure of hearing——

Mr. FENNING. May I say one word, please, Mr. Chairman?

Mr. LANHAM. Yes, Mr. Fenning. You were through, Mr. Henry?

Mr. HENRY. I have just one further word, if you please, Mr. Lanham.

I heartily agree with Mr. Fenning as to what is now section 10. That, it seems to me, would lead, if enacted into law to a multitude of suits involving the same question of law.

Mr. LANHAM. Personally I was impressed with what Mr. Fenning said in regard to that.

Mr. HENRY. And I think it is incumbent upon every Government officer to protect the citizen in his rights and never to compel the citizen to defend himself against an unnecessary and unauthorized act of Government.

And, therefore, I would suggest that section 10 be amended to read as follows:

If any or [illegible] provision of this Act shall be held invalid, the validity of the remaining [illegible] shall not be affected thereby.

M[illegible] in accordance with the general enactments al[illegible]

M[illegible] sir. That is, if one section is invalid, the rest st[illegible] that section reads now, if A is sued and the act is held unconstitutional, B can be sued, and C can be sued; and D can be sued. There would be no stability in the law.

Thank you, Mr. Chairman.

Mr. LANHAM. Thank you, Mr. Henry.

Mr. FENNING. If I may be heard for just a moment.

Mr. LANHAM. Yes.

Mr. FENNING. Section 1 refers to the head of a Government department and agency.

I do not know whether anybody knows what a Government agency is.

Mr. LANHAM. You recall my statement.

Mr. FENNING. I think that should be defined or eliminated, one or the other.

Mr. LANHAM. You recall my statement on that.

Mr. FENNING. You have spoken on that.

Mr. LANHAM. I made reference to that the first day of the hearings.

Mr. FENNING. Yes, sir.

Mr. LANHAM. I thought some clarification was necessary there.

Mr. FENNING. There are a great number of these agencies. The Reconstruction Finance Corporation is organizing little corporations, or additional corporations. For instance, the Rubber Reserve—is that an agency of the Government? It certainly is engaged in a wartime activity and should be brought in. Probably it is not an agency of the Government.

But something should be done to straighten that out.

Now, in that connection I would like to call attention to section 7 which defines the type of device on which the royalty is to be paid.

It says "chargeable to or payable by the United States for any supplies, equipment, or materials deliverable to the Government."

I raised the question with respect to a process. If there is a license—and there are many. For instance, let us take the Rubber Reserve Company. There many licensese are process licenses.

This section, without mentioning it, because it does not mention processes, would give no relief with respect to that and it seems to me instead of stopping with these terms, you should add another, "process or method," or should just say "invention."

Certainly there is no reason for saying because you are paying royalties under the process you are bound by the contract.

Mr. LANHAM. I think we should like to hear just a word in that regard from these representatives of the War and Navy Departments, with reference to whether that should be included—in addition to supplies, equipment, and materials, whether we should include "methods and processes."

Would an amendment of that character give you the latitude that would be needed in taking care of every situation?

Mr. CHAPPELL. In my opinion, it is not necessary to amend the act to set forth the right to use processes, because the bill as amended, in section 7, reads, "This act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or materials delivered to the Government from and after the date of the approval thereof," and that would involve not only payments covering the articles themselves, but any steps in the process of making them, and it seems to me that this is adequate to and is intended to cover any inventions used in getting material for the Government without specifying just what the nature of the invention would be, and includes processes. It could even include a machine used.

Mr. LANHAM. I think it is well to have that statement in the record as showing the intention if questions should arise with reference to it, and I appreciate your statement, Mr. Chappell.

Colonel Patterson, do you have anything to add to what has been said about that?

Colonel PATTERSON. Not at this time. I would like to have Mr. Kreeger speak with regard to the section on separability. That is a legal matter which the Department of Justice is interested in.

STATEMENT OF D. L. KREEGER, DEPARTMENT OF JUSTICE—Resumed

Mr. KREEGER. Mr. Chairman, if I may make a short statement on that.

Mr. LANHAM. Yes, Mr. Kreeger.

Mr. KREEGER. It will be very short.

There are apparently many misconceptions about section 9 as proposed by the War Department. It seems to be regarded in some quarters as being very unusual, and a rather radical provision. Actually it is the stock-separability provision appearing in any number of acts of Congress.

Mr. LANHAM. You mentioned section 10.

Mr. KREEGER. Well, section 10 as renumbered; yes, sir. I refer to the separability provision as proposed by the War Department. It is virtually identical with the separability provision in the Securities

Exchange Act of 1934, the Securities Act of 1933, the Federal Communications Act, and numerous other acts. A provision such as proposed by the War Department has been before the Supreme Court on several recent occasions, and has been recognized specifically as an aid showing the intention of Congress that if the statute cannot constitutionally apply, or is not valid as to any group or class of persons, the remainder of the statute is to continue in effect.

There is a definite value in such a provision to show the courts that Congress does not intend, if one portion of the act is held to be invalid, that the whole act should fall.

Mr. LANHAM. Could you not do that without these last two lines reading:

and the applicability of such provision to other persons or circumstances shall not be affected thereby.

Mr. KREEGER. Well, of course, the separability provision proposed by the War Department is substantially the provision as it has appeared in much important legislation on the statute books for more than 10 or 15 years, and it has been copied out practically verbatim.

Mr. LANHAM. Of course, if it should lead to such an interpretation as Mr. Fenning indicated, it would certainly make for a multiplicity of suits.

Mr. KREEGER. Definitely.

Mr. LANHAM. On matters that are res adjudicata.

Mr. KREEGER. Definitely, but I think the interpretation urged is rather absurd, because it has been before the Supreme Court——

Mr. FENNING. In what case?

Mr. KREEGER. It has been before the Supreme Court on several occasions, and has never been regarded as other than helpful to the courts.

Mr. FENNING. I cannot find any cases.

Mr. KREEGER. It has been before the Supreme Court in several instances. I can supply the citations to the committee, where separability provisions of this nature have been upheld as guides to the congressional intention. (See supplemental statement of Mr. Kreeger in appendix, p. 102.)

Mr. LANHAM. Would not the provision be just as effective without those last two lines?

Mr. KREEGER. It might be, but the question may be raised as to whether Congress intended anything different by a provision that is in part substantially the same and in part different from one which they have enacted previously in the Securities and Exchange Act, and many other statutes.

The fact that it follows the former provision to a certain extent and then stops might possibly raise some question, although I think that the general intention of Congress probably would be as clear.

Mr. LANHAM. Then if they have decided the issue, as you have said, the only question that could be raised would be a question of confirmation of the decisions that they had already rendered.

Mr. KREEGER. That is right; if substantially the same words were used as were before the Court; yes, sir.

STATEMENT OF JAMES A. EMERY, GENERAL COUNSEL, NATIONAL ASSOCIATION OF MANUFACTURERS, WASHINGTON, D. C.

Mr. LANHAM. We now have as our next witness Judge James A. Emery, general counsel for the National Association of Manufacturers. We will be glad to hear from you, Judge Emery.

Mr. EMERY. Mr. Chairman, while I appreciate the Chairman's nomination to the judicial position, I must confess that the title "Judge" has behind it neither executive nomination nor senatorial confirmation, and no hope of either.

Mr. LANHAM. May I say in that regard, Mr. Emery, that the notation that I have here shows Judge James A. Emery.

Sometimes we who serve in a legislative capacity are referred to as judges and to those who have applied that appellation to me, I have been very quick in quoting the Biblical injunction "Judge not that ye be not judged."

So, we will be glad to designate you by the good American term of "Mr. Emery."

Mr. EMERY. Thank you, Mr. Chairman. I appreciate your courtesy, but I realize that members of my profession often acquire that title if they happen to be over 50 and have escaped either disbarment or indictment.

Mr. Chairman, I appear on behalf of the patents committee of the National Association of Manufacturers in company with Mr. George Folk, a patent lawyer of great distinction, and our patent adviser.

We have not been able within the brief time at our disposal, since the measure was introduced, to refer it to our board of directors—a very large board including membership from all parts of the country. We are compelled under the circumstances to present to you the suggestions of the executive committee of the committee on patents which speaks for the association under these circumstances.

I beg to say on their part there is a realization that in the situation which confronts us, measures which otherwise would be in many respects objectionable are justified by the circumstances of the war. We respect the judgment of the military departments in that respect; but we venture to point out that in measures of this kind there is a tendency to act hastily under the pressure of war, to overlook the fact that things creep into the statutes which otherwise would not. We are here confronted, we believe, with suggestions, we feel sure upon mature deliberation the military authorities, will realize deserve correction, not only to do justice to those interested in this matter, but we believe to expedite the objectives which the authorities have in mind.

I want, Mr. Chairman, to say on behalf of our committee, we appreciate the opportunity this committee gives for hearing us during the consideration of this measure, which unfortunately we have not possessed in the other House.

Turning to the measure before you, Mr. Chairman, if I may proceed rapidly in presenting our comments and suggestions to the committee, you will discover that perhaps while I have had no discussion with Mr. Fenning, we are in accord with several of the suggestions he has so ably made and defended.

The first is that the heart of this bill is contained in sections 1 and 5, so far as temporary legislation is concerned.

The remainder are incidental to it.

This bill is aimed, exclusively through section 1, at the adjustment in contracts of patent royalties alleged to be excessive or exorbitant where such royalties arise out of existing private contracts between licensors and licensees; one who is supplying the Government during the war. The proposal is that administrative officers of the Government shall have the authority to determine whether or not such royalties are excessive in the light of wartime conditions and fix what is a reasonable royalty subject, under the provisions of this bill, to a settlement with the licensor or licensee, and before suit, with exclusive jurisdiction in the Court of Claims to determine any difference between the royalty which may be fixed by the administrative official and what the patent owner believes to be fair compensation for the use of his patent.

Now, the first thing that struck us is one which Mr. Fenning has alluded to this morning. I think it not only is fundamental to this measure as a matter both of justice and of practicality, but it is a fundamental principle of administrative law.

In section 1 it is provided, on page 2, that the administrative official who determines that there is excessive royalty operating as a cost in a contract, gives written notice of that fact to the licensor or the licensee and shortly thereafter gives notice of the amount fixed, or he may do it in the original notice.

There is no suggestion here, no assurance, of any opportunity for fair and adequate hearing for the owner whose patent property is to be subject to a "taking," for that, of course, is what a royalty adjustment is in this case.

It must be assumed that where these contracts are in existence, the licensor in accordance with the practice of the business world has protected himself in securing as reasonable license as he could. I am sure this committee will note that it is a practice in the business world for licensees to continually endeavor to secure reductions in royalties as a part of their business activity.

So that as to those contracts that are in existence and operative and a cost element in contracts, the presumption is that it is a fair charge. That is sustained by the presentation made by the military authorities—here.

I did not have the privilege of hearing the Navy, but I did hear the Army presentation in which we were impressed with the fact that there was but a small number of cases to which this bill was expected to apply out of the thousands of patents operating in the United States and the licensees for which are an element in the cost of manufacturing exactly as is the cost of material, supplies, salaries and wages.

So that that is the first point we would urge, Mr. Chairman, that there be an assurance by amendment of section 1 that the officer who is to fix, or the board, which is to fix the royalty alleged to be exorbitant or excessive shall hear the parties, who have not only the greatest interest but the greatest knowledge of the circumstances under which that royalty was fixed.

There is no provision to that effect in the bill today. It is a fundamental principle of administrative law that administrative officers should not make decisions affecting the rights or liberties of citizens without opportunity for hearing.

There is, of course, under the circumstances of war, a taking of property at times where the military forces are in the field or where there is immediate need for military action in defense of the country; but that is not present under circumstances of this proposal.

There is here no reason why an adequate hearing cannot be given.

Mr. LANHAM. In that regard, Mr. Emery, may I inquire if you are in accord with the amendment suggested by Mr. Fenning on page 2, line 5, reading "within a reasonable time thereafter, not less than 30 days, within which time a hearing shall be granted."

Could that time of 30 days be decreased somewhat?

Mr. EMERY. What we want and the fundamental matter which we are concerned with is that there shall be an opportunity for a fair hearing; that the party shall have due notice so that he has a chance to present the facts of his case; so that he may not then under section 3 be presented with an opportunity of entering into an agreement with the Government under the shadow of a predetermination by the officer or board who has fixed the royalty. He is thereby greatly disadvantaged, because that is going to be a very powerful influence in settling any case. Another thing, no action should be taken without a presentation of all the facts before the deciding body.

I think that fundamentally is our conception of the law. Furthermore, I submit that fairness in that regard will greatly expedite the purpose which the military authorities have in mind. If there is a fair adjustment in matters in which there is proof of excess royalties, undoubtedly that will be the basis of the settlement which will be made with the Government. It will minimize litigation and it will vary greatly expedite settlement with the Government where the original adjudication is had under circumstances in which the parties at issue feel that they have had an opportunity to present their case. That is all we ask for.

Next, I want to make an inquiry, Mr. Chairman. Mr. Fenning raised the question with regard to it. We are somewhat troubled by the use of the words "if any."

I did not happen to hear the views which the military authorities expressed as to their own purpose in inserting that phrase. Whether they meant that there were going to be circumstances under which there would be no royalty paid, while the theory of the bill is that there are to be adjustments at all times of so-called excessive or exorbitant but recognized royalties. It presupposes that royalties will be paid.

The introduction of the phrases in here "inventor" or "patent holder" caused me to realize that it might be possible that they had in mind inventors who had no similar rights to those protected by patents. We do not know whether it is confined to that class or not, or whether it implies the suggestion made this morning in the course of the discussion, that the Government is reserving the right in subsequent proceedings to raise an issue as to the validity of the patent. Not merely as it would otherwise do as to the reasonableness of compensation already allowed, or the possible question that

there was no infringement of a patent in the matter at all, which would be an issue quite different from the validity of the patent.

Mr. LANHAM. That inquiry can best be answered by these gentlemen here from the War and Navy Departments.

Mr. EMERY. We have not heard anything on that. We are interested in knowing just what the gentlemen construed that term "if any" to mean, since they have drafted the bill, and we presume they did it with great care and skill. "Every little word has a meaning of its own."

Colonel VANDERWERKER. I think those words can be construed to mean there might be determinations that the Government would feel that it would not pay any royalties. Validity might be one. There might be other reasons. Title, ownership, scope of the claims; validity—any number of things which would all be taken into consideration at the time the determination was made.

Mr. EMERY. Now, that construction you have given, Colonel, would apply more to defenses than to the ordinary person who might have this type of litigation.

Colonel VANDERWERKER. That is true, yes; comparable to those we have in other situations now.

Mr. EMERY. Do you think that it would be equitable to limit the Government defenses to that which, for instance, the contractor or the licensor might have, or the licensee, I should say.

Colonel VANDERWERKER. I do not hold with Mr. Fenning, that the Government is substituted for the licensee and should be limited to his rights. He still remains the licensee. What he pays for the license is determined by the Government rather than by the original license agreement. To that extent only is the Government substituted in his shoes. I do not think the Government becomes the licensee by virtue of its act in fixing a different royalty.

Mr. LANHAM. If the Government were put in the place of the licensee, there would be no opportunity to reduce the royalty, would there?

Colonel VANDERWERKER. Neither reduce the royalty nor challenge the validity of the patent.

Mr. PLAUCHÉ. I am trying to get this thing clear in my mind. Under this bill, if we should limit ourselves to this bill—the Government probably has rights to attack the validity of patents under some other law—but under this bill as I understand it, if a man has a license and the Government should say, "You should reduce that royalty" and then years after it comes up before the Court of Claims and there is urged the validity of this thing, it seems to me that would be inequitable and unfair.

Colonel VANDERWERKER. I should hesitate, Congressman, very much before I would advise the Secretary of War to pay a royalty under a patent that I knew was invalid or had reason to believe was invalid. After all the Secretary is charged with the responsibility of the expenditure of public funds. I would hesitate very decidedly to advise him to pay if I thought that the patent was invalid.

Mr. PLAUCHÉ. This legislation, as I understand it, is strictly for something else. It does not affect the validity of patents. It is stictly for a reduction of royalties, excessive royalties.

Colonel VANDERWERKER. As a matter of fact, I cannot conceive, except in very rare instances, where a licensee would enter into an

agreement with a licensor until he had very carefully considered the question of the validity of the patent he was taking a license under. The chances are very remote that the Government would find invalidity. It could perhaps in rare cases find differently from the licensee in that respect. This may be a matter of opinion. It is a situation, insofar as invalidity is concerned, that I think will rarely come up.

Mr. PLAUCHÉ. That is all I have.

Mr. EMERY. I gather from that statement of the distinguished officer, that validity might be an issue in a rare case, but nevertheless the gentleman reserves the right to raise that issue and to raise it under section 2.

I wanted to call the committee's attention to that rather distinct difference between procedure under this bill, and under the act of 1910 as amended by the act of July 2, 1918.

The presumption in all those cases is that the Government authorizes its contractor or subcontractor to go ahead and produce or use or sell for or on behalf of the Government, so that the Government authorizes an infringement and accepts liability by assuming the obligation for adequate compensation in all cases arising under that act.

This bill, by its title and by the statement heretofore made has as its main purpose, as the title suggests, the adjustment of royalties that are in being by virtue of private contracts previously made between the licensor and the licensee and that is the fundamental matter that is presented to this committee for decision and should be distinguished from the act of 1918 in that regard.

So we emphasize, Mr. Chairman, and we hope the military authorities will give consideration to the fact that in the limited number of cases to which they say this act is applicable, they should realize that the Government stands in a different position from those occupied in the act of 1918; here it is in the shoes of the licensee. It deliberately takes that position. While it is true that it is the sovereign as well as a contractor, and has the authority to regulate its own contracts which, of course, no private person has except to the extent that he can make a bargain, it is standing by virtue of the statement here made and the terms of this bill in the position of the licensee.

The only issue that should arise under the representation heretofore made and described as the basis of this legislation is a determination, a judicial determination as to whether or not the settlement which the Government has made in an adjustment of a royalty is fair compensation or not, and if it holds that it is not fair compensation, a court awards what it conceives to be the difference between just compensation and what the party is already receiving from the Government, that ought to be the sole issue for judicial determination.

If you are going to go into other questions, after you have awarded a royalty by adjustment, have awarded that and left the issue as to further compensation to be determined subsequently in court, if you are going to reserve the issue of the validity of the patent under which you have agreed to royalty—and the Government in the issuance of the patents acts through its own officers—you have got an entirely different issue before you. You have certainly entirely changed the character of the patent system as we now understand it; you will have created a precedent that will rise to trouble us many times in the future in dealing with patents.

We say that, realizing that the Government has not only the right but the obligation to protect the public interest against a charge for excessive royalties as a factor in the cost element of the contract.

Now, in connection with what I have said with respect to section 1, Mr. Chairman, as to the requirement for a fair hearing, it is necessary to immediately refer to section 5, both as originally proposed and amended—the amendment which has been suggested here.

You have had presented to you by others the suggestion that the delegation and redelegation of power which was originally provided, went very far in lessening the responsibility and qualifications of the administrative official who would determine whether or not there were excessive royalties in the first instance.

It has been suggested to you an interdepartmental board exercise the power of Section 5 that is based on precedents created elsewhere, for instance, in the whole field of the renegotiation of contracts where we are confronted with administrative boards set up to finally pass upon these matters, the subject having involved so much confusion—in the beginning—it has now been a subject for correction in the tax bill.

We believe these two matters are intimately related, that is, the opportunity for adequate hearing and a fair hearing, and the character and personnel of the board before which the party is to have that hearing.

Mr. LANHAM. Mr. Emery, have you drafted anything you would recommend with reference to section 5?

Mr. EMERY. No, sir! but we believe that in substance the suggestions Mr. Fenning made are good and we would conform very closely. That is what is needed here, is an interdepartmental committee that would have on it representatives of the military departments affected, because of their knowledge and information of the circumstances to be met; but furthermore to have some impartial officer there also, or some impartial person.

In the renegotiation of contracts we have gone out into civilian life and created memberships on those boards for that purpose and so far they have been doing an excellent and difficult job.

The amendment that is suggested here, Mr. Chairman, that has been presented this morning does not very materially change the original suggestion that was made.

The head of the department or agency of the government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the redelegation of any power and authority conferred by this act to such responsible officers, boards, agents or persons as he may designate or appoint.

We have the word "boards" in here for the first time; but the authority to redelegate to individuals remains as it was. I suggest with all due respect to our good friends in the military service, for whom we have the highest regard, that they are the party at interest in the redetermination of the royalties. The Government is protecting its interests and its officers protect that interest very properly. There is no arbiter; no third person; no disinterested individual who has not the viewpoint of the Department of the matters to be inquired into. It is in the hands of the department.

That is the reason for the creation of these boards which have rendered such effective service elsewhere. They brought a detached and impartial view into the picture and I am sure that the officers in the military service have no desire to be other than fair in the adjustments that they feel it necessary to make.

I can, therefore, see no reason why they should object to the introduction of an impartial official from any other department or the creation of an interdepartmental committee for such a purpose. That is the course commonly pursued in many other departments in determining the differences between the Government and private businesses.

Mr. LANHAM. You will recall, Mr. Emery, that on the first day of the hearings—you were present on that day, if I remember.

Mr. EMERY. Yes, sir.

Mr. LANHAM. Attention was called to this particular section. Of course we realize that there must necessarily be some delegation of authority by the heads of these departments, in view of the fact that the Secretary of War, the Secretary of the Navy, and so forth, could not give their personal attention exclusively to these matters; but attention was called to the desirability, as some of us thought, of some modification of that that would avoid confusion and a wide variety of rules and regulations, and I for one, as a member of the committee, am anxious to see that fixed in such a way that it will be entirely satisfactory both to the military and naval authorities and to those with whom they deal under this proposed legislation.

I think perhaps——

Mr. CHAPPELL (interposing). Mr. Chairman, there is one thought that I would like to raise here. It has been my experience in the Navy that there are a great many matters that are so highly confidential that maybe only one or two or three people in the Department will know something about them. There are others which may have a slightly wider circle of very select personnel who know about them.

If you establish a board, an interdepartmental board, anything of that nature would absolutely be out of the Board's jurisdiction and would necessarily have to be, because we could not submit any question relative to such matters to it.

Mr. LANHAM. You mean requiring the disclosure of confidential information?

Mr. CHAPPELL. Yes; requiring the disclosure of confidential information. If we were limited to merely considering matters before an impartial board, we would be in a very poor position to adjust on confidential matters which might call for adjustment.

I think it fair to assume that the heads of the War Department and the Navy Department are going to administer this measure fairly, I do not think there is any intention of delegating authority down to the fourth assistant messenger, or anything of the sort even if, theoretically, that could be done.

As a practical matter, I do not think there is any danger of it being done.

Mr. LANHAM. My thought in the matter originally was that perhaps without any board, inasmuch as a delegation of authority necessarily is required in many of these instances, that there might be some provision under which the heads of these departments would be authorized by their direction, so that it would come from some responsible source,

to make the delegation, and if a redelegation of authority were necessary, with reference to any features that might be confidential or something of that character, that the same authority would make the redelegation.

I believe that this section could be drafted in such a way that it will be entirely acceptable to both the Army and the Navy, and to these people who are appearing here.

Mr. FENNING. May I say just one word?

Mr. LANHAM. Mr. Fenning.

Mr. FENNING. First with respect to secrecy: First the issue here is royalty under a patent. A patent has been published; the public knows about it.

Mr. CHAPPELL. No.

Mr. LANHAM. Not public, because we have laws providing for secrecy in connection with many of them.

Mr. FENNING. That is an application. Very well. If a patent is published, and that is where royalty is being paid chiefly, and that is what we are talking about, then the patent is public.

Second, the relief is obtained by a suit in the Court of Claims which is a court of record and if the Court of Claims may consider these matters which are secret, certainly a board which is created can be put under the same sort of secrecy as the Court of Claims.

Mr. LANHAM. Yes, but I do not see that that mitigates against the suggestion I am making that these things which are confidential can be kept confidential and authority can be given to the heads of these departments, or under their direction, for such delegation to be made, and we will have greater uniformity in the rules and regulations. My particular objection is to the inclusion of all of these various agencies. If that were restricted to such agencies as would be selected by the heads of these departments and by their direction, with the authority delegated, conceivably, of course, there are several agencies that ought to be used; but just to make an indiscriminate reference to all of the agencies, I am afraid would make for confusion.

I think we all have exactly the same thing in mind. I simply believe that it is a matter of verbiage and phraseology and getting this section in such shape that it will be satisfactory to all parties.

Mr. PLAUCHÉ. I would like to make one observation. Under this particular section, I can see great confusion might arise if several agencies were ordering the same manufactured articles and each one fixes a fair royalty to be paid. You might have four, five, or six different royalties to be paid to the same manufacturer, or the same inventor under this particular section, unless there be some central agency or coordination of effort, of mind, to fix the same royalty, and it would make for confusion with every manufacturer of a patented article, because there might be four or five different royalties fixed by various agencies on the same article.

Mr. CHAPPELL. The situation might vary with each successive order for equipment too, particularly from the volume angle. The first contract might be for 10,000 and the next for 10,000,000, and the royalty which was perfectly satisfactory for the 10,000 might be very unreasonable for the 10,000,000.

Mr. LANHAM. I can see that very readily, but I think the determination of that matter and the difference that should be paid should

all be within the knowledge of the one who is directing and who is delegating the authority in order that there might not be confusion. I think we all have exactly the same idea in mind. Quite a bit of fear has been expressed as to this particular phraseology. I think that we can, with your cooperation, get it satisfactorily stated, to carry out the purposes that we all have in mind.

Mr. EMERY. Mr. Chairman, you note, of course, that the provisions of this bill are not applicable, merely, to the production of military supplies. They are applicable to all production in which the Government is engaged or to which it is related at this time, and in which there are excellent contracts between patent owners and licensees.

There are various departments of the Government that are engaged in very important work that has an indirect military aspect, contributing to production for the war and affected by this bill, because patents are used. The very same objection or criticism as can be made to those immediately related to the direct military supplies. Further than that we would like to emphasize this, Mr. Chairman, once again, and I say it with great urgence to our military friends, that the fairness of this hearing, the character of this board, that is to determine these royalties will profoundly affect the successful administration of this act. If this is fairly done—and I am sure they desire to do it fairly—if this is fairly done—and it is equally as important to appear fair as to be fair—the work of this board will determine the successful administration of this act. Just as surely as this board does its job well, the Government will have little or no litigation and all of the cases that might possibly arise will be settled with the Government and there will be very few in court.

Mr. Chairman, we want to urge upon the consideration of the committee the fact, despite all of our respect for the Department of Justice, that section 2 should be amended to give alternate jurisdiction to the district courts of the United States. I say that first because it is a fundamental principle with the English-speaking people that the courts follow the suitor. He ought not to be compelled to come to a distant place, especially a place as congested as Washington is likely to be after the war. Because when we terminate this war, with the cancelation and adjustment of existing contracts, we are going to have a very large job on our hands. It is going to be one of the serious economic features and aftermaths of the war.

So that the Court of Claims is going to be a very busy court. Furthermore, any citizen at work in different parts of the United States ought to be able to avail himself of the district courts. In all of the other legislation we have enacted with claims against the Government—take for instance the Requisition of Property Act—we have given jurisdiction to the district courts. We did it in the last statute which you gentlemen passed, March 28, 1942, the Second War Powers Act. So that we have an excellent precedent for giving additional jurisdiction to the district courts both as a matter of convenience and as a matter of principle.

Mr. LANHAM. Any further suggestions, Mr. Emery?

Mr. EMERY. We would just like to suggest that you consider what has already been said as to striking out the limitation on settlement in section 3. That is, it will encourage them. I am sure these gentlemen want to get a settlement of these matters, disposition of them, so that these adjustments will not result in litigation.

Mr. LANHAM. You are referring to the amendment suggested by Mr. Fenning in line 21 on page 3, after the word "instituted" inserting "or in settlement thereof."

Mr. EMERY. Yes; so that following "empowered to enter into an agreement," beginning in line 20, if you will strike out after "agreement" the words "before suit against the United States has been instituted," you will effect that result, making it read, "to enter into an agreement with the owner or licensor of such invention."

I am sure that the Government wants to settle these matters. What difference does it make to them whether they are settled before or after suits have been brought.

Mr. PLANCHÉ. You could correct that by inserting the words "or after" after the word "before" in line 20, page 3, making it read "before or after suit."

Colonel PATTERSON. Mr. Chairman, might I point out to the committee the reasons for that language, and I think I can clear up misapprehensions arising by reason of the statements made by both this gentleman and Mr. Fenning.

There is a right of settlement after the suit is instituted. The language referred to was inserted merely to make it certain that the War Department, or the Navy Department, or any other interested agency, would not have the right to compromise a suit already instituted which is a power vested in the Department of Justice.

In other words we are going to attempt a compromise of these matters until such time as the suit is filed in the Court of Claims. I mean by "we," the Navy Department and the War Department. But after that time we feel that it is within the province of the Department of Justice to settle a case and it is not in the province of the Navy Department or the War Department. That is the reason for the language.

There is nothing in the language which would prevent a settlement after the suit is filed, except a settlement by the particular agency.

Mr. LANHAM. Do you have any further statement, Mr. Emery?

Mr. EMERY. Only on one other point, Mr. Chairman. That is in connection with section 4 and the new section 7.

These provisions provide that this act shall apply to goods which have been delivered to the Government before the act itself comes into effect if royalty has not been paid.

Well, that is a rather arbitrary distinction between royalties which have already been paid and those which have not yet been paid under some contracts, the terms of which have prevented an earlier payment, or an accumulation of it. It seems to us that the royalties which have been adjusted should not be effective until the order has been made in the particular case involved and notice served on the parties to the contract affected by the adjustment.

Mr. CHAPPELL. Mr. Chairman.

Mr. LANHAM. Mr. Chappell.

Mr. CHAPPELL. I may say that I feel that if we do not have the provision in as it stands there will be less opportunity for discussion with the owner of the patent relative to the amounts of the royalties, and it would be necessary for more precipitate action to stop the payment of royalties which we feel are excessive, and I feel that if

you want to have the chance to discuss those things rather than rush into them, it is better to wait and even let the delivery of goods continue and leave the matter for discussion between the Department and the owner of the patent.

You have a line there where it might be rather difficult to find a perfect point for the application of your rule; but I know that in many cases deliveries go on under contracts before the contracts are signed. In most of them, in fact.

Mr. EMERY. Well, these are cases, of course, in which goods have been delivered. This does not interrupt the flow of goods. The goods are delivered; supplies are received under the contract, but the royalties that are due to be paid by the licensee to the licensor have not yet been paid.

The same goods and supplies, under like circumstances may be supplied by others and the licensee has been paid. The difference between the two is a purely arbitrary one.

Second, and most important of all, Mr. Chairman, is that an application of the law ought not to be made to parties to a contract until the order has been issued. An order in any case may not arise until sometime after the law has been in effect. But if the parties in the first instance have an order fixing the adjusted royalty fee before there has been a hearing of themselves, they are placed in a very difficult situation in their future relations with the Government in the settlement of any claim or the pending suit, because they are under the disadvantage of having an order made without a hearing. They are compelled to go into court to get a hearing, which has been denied.

So, that is a vital part of this matter we referred to.

Otherwise, they are in the position of the White Queen in Alice in Wonderland, who informed Alice that in that country they arrived at the verdict first and held trial afterward.

That consideration is vitally important to the fair operation of the act.

Another matter, Mr. Chairman, is the modification of the repeal section.

I may recall that to your attention there that you cannot repeal sections 1 and 2 and leave section 5 in. If you repeal sections 1 and 2, section 5 ought to go out, because section 5 is what operates under section 1.

Mr. LANHAM. Well, did you hear the suggestion of Mr. Henry that all of this be made temporary, except section 6?

Mr. EMERY. No; I did not hear that, Mr. Chairman. Except section 6 affecting the Act of 1918?

Mr. LANHAM. Section 6.

Mr. EMERY. Section 6?

Mr. LANHAM. Yes; the suggestion of Mr. Henry was that all of this be made for the duration of the war and 6 months thereafter.

Mr. FENNING. Section 5 states who shall conduct the settlements under section 3 during and after the war, and section 3 certainly should be retained for settlement.

Mr. EMERY. That is provided for.

Colonel PATTERSON. I want to bring to the attention of the committee too, the fact that if you eliminate certain other paragraphs,

you are going to effectively stop settlements and collections by patent suits in court on these claims which may arise after the war.

Mr. LANHAM. Does that suggestion lead you to wish to modify your suggested amendment, Mr. Henry?

Mr. HENRY. Mr. Chairman, the purpose of considering this bill here, and when we make suggestions as to the modification of particular paragraphs of it necessarily means that would entail modification of some other paragraph.

It was simply my suggestion that the bill be limited for the duration of the war and 6 months thereafter. That implies that whatever had been done or whatever action had been taken that the authority would be retained in the bill to pursue that action or to pursue that course.

So, it may well be that other parts of this bill should be amended in order to retain the right of suit or the right to continue to adjust the claim if some action had been taken under the bill.

Does that answer your question, sir?

Mr. LANHAM. Yes; but how would you modify this bill to bring about what you have suggested?

Mr. HENRY. Well, it may take another paragraph or it may take a modification of section 3.

The thought that I was trying to express was that the bill in its entirety, with the exception of section 6, be limited for the duration of the war and 6 months thereafter. Now, if any action has been taken under other sections of the bill that was necessary to be pursued, of course, the right ought to be retained by the Army and Navy and other agencies of the Government to continue adjudication and settlement of the claims.

Mr. PLAUCHÉ. Would that phrase in section 7—

except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

Mr. HENRY. That would seem offhand to take care of the situation and to that extent, I would modify my suggestion about amendments.

Mr. PLAUCHÉ. You think that language would cover it?

Mr. HENRY. I think it would.

Mr. LANHAM. That is "except that as to rights accrued or liabilities incurred prior to termination"——

Mr. HENRY. It may be from a further study of the bill that it might be determined that some other language be adopted, but whatever language is adopted would be perfectly satisfactory insofar as the patent office is concerned, that meets the requirements.

Mr. KENNING. I think that the present language is safe and does no harm. It cancels the important sections 1 and 2 and we can have the remainder of it remain alive, if it is desirable to have it remain alive.

Mr. LANHAM. Well, under this suggested amendment of Mr. Henry, it would all remain alive for the determination of these matters arising under it until they have been satisfactorily adjusted, or adjusted, whether satisfactorily or not.

Mr. KENNING. That is all that it does at the present time.

Mr. HENRY. If the chairman will give me permission, I would be perfectly willing to study this bill carefully and submit what in my opinion would be appropriate to effectuate the purpose.

Mr. LANHAM. I think that the committee would like to have that from all of you gentlemen, in view of these discussions which have been very interesting and very helpful. We who serve on other committees and have labors of many different characters, are not experts with reference to any particular measure necessarily. That is especially true in connection with measures in which you gentlemen have specialized, and I think any statement you may submit will be helpful and I am sure that it will be given consideration.

I shall, with the consent of the committee, take the liberty of going through the various letters which have been sent in, and those which are pertinent and apply to the legislation include them in the hearings.

Had you concluded your statement, Mr. Emery?

Mr. EMERY. No, sir. I just want to say that the National Association of Manufacturers through its officers, are only too glad to cooperate with its services in this matter as they have in every other respect.

Mr. LANHAM. We appreciate that. Do you have other suggestions?

Mr. EMERY. Only one thing. I just want to call your attention in section 8 to a misprint which has caused some misunderstanding.

Mr. LANHAM. Section 8?

Mr. EMERY. Yes. That refers to the provisions of section 10 (1). That is section 10 (l). That has caused some of the gentlemen some inconvenience.

Mr. LANHAM. That should be (1).

Mr. EMERY. Yes, sir.

Mr. LANHAM. I guess there can be no controversy about that.

Mr. EMERY. No.

Mr. LANHAM. I understand that the Alien Property Custodian has representatives here. I am just wondering if he has any comments to make or any statement to submit?

STATEMENT OF R. W. WILSON, REPRESENTING THE ALIEN PROPERTY CUSTODIAN

Mr. WILSON. I have neither comment nor statement.

Mr. LANHAM. We are glad to have you with us, Mr. Wilson.

Mr. WILSON. Thank you.

STATEMENT OF R. S. OULD, WASHINGTON, D. C.

Mr. OULD. Mr. Chairman, may I have a minute?

Mr. LANHAM. We have but a minute.

Mr. OULD. My name is R. S. Ould, patent attorney, National Press Building, Washington, D. C.

Mr. Chairman and member of the committee, members of the committee have expressed solicitude that any board or especially a body that may be constituted to adjust matters in the purview of this bill should be very carefully constituted and scrutinized.

It seems to me that solicitude is very much fortified by the record in the hearings in the proceedings before the House Committee on Military Affairs in the Seventy-third and Seventy-fourth Con-

gresses, I think under House Resolution No. 275, Seventy-third Congress in which some practices and some specially constituted boards which in part related to patent matters be euphemistically characterized as being unfortunate. The hearings were very extended. Congressman Rogers of New Hampshire went into some of those patent matters very carefully. He was chairman of one of the subcommittees. Some of the matters I know came down from the War Department. I attended some of those hearings, and I simply thought that I would make reference to that as some important past experience.

I should also like to point out that the position of the Government in connection with these license agreements and the question as to whether the Government is simply stepping into the shoes of the licensee involves the characterization to some extent of the Government acting under duress in these matters. That is to say, an ordinary licensee will consider a proposed license agreement from the good business point of view, but as one of the representatives of the War Department pointed out in a case I think of a rolling mill, various machines were available, but they had to use all of them, whereas an ordinary licensee simply takes the one which presents the most attractive patent proposition, but the Government is at the present time not in a position of being able to select. The Government has got to take all available machines and, therefore, there is that distinction between the position of an ordinary licensee and the position of the Government in this instance.

Mr. LANHAM. Thank you, Mr. Ould. We are very grateful to all of you for your help in this matter, and let us hope that we may find wisdom in multitude of counsel and be able to get a proper law enacted.

The committee will stand adjourned.

(Thereupon, at 12:33 p. m., the hearings were concluded, and the committee adjourned.)

APPENDIX

OCTOBER 9, 1942.

Re H. R. 7620.
HON CHARLES KRAMER,
House Office Building,
Washington, D. C.

HONORABLE SIR: I acknowledge, with thanks, the courtesy extended in yours of the 2d.

In looking over the said bill one phase of it strikes me as inviting litigation and creating confusion.

Let us assume that the department head or agency is thoroughly familiar with his subject, or has in his department an experienced party who has a royalty rate in mind when ordering the article made. If this assumption is correct then it is my opinion that there should be no quibbling between the licensor and the department head, as the licensor has redress through the provisions of section 2. I therefore suggest the elimination or deletion of lines 9 and 10, page 1, and lines 1 to 5, of page 2, including the word "thereafter," line 5, and substitute therefor "head of the department or agency of the Government which ordered such manufacture, use, sale, or other disposition,".

To carry out this idea the following should be deleted from lines 17, 18, and 19 of section 3, namely: "whether or not an" in line 17, all of line 18, and "Section 1 thereof," from line 19, page 3.

Page 5, after "materials," line 6, insert "based upon a patent or an application for patent."

I regret that I will not be in town on the 13th.

Yours very truly,

CHAS. R. ALLEN.

OCTOBER 14, 1942.

HON. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: I am sorry that I cannot attend the hearings which you are holding on your bill H. R. 7620. I have read the copy of the bill which you forwarded with your letter of October 2, 1942, with considerable interest.

Personally, I see no reason for Congress to pick on patentees any more than it does on other property owners. Is there a bill pending before Congress providing that the War Department or other Government agency shall have the right to reduce the rent paid by manufacturers for factory space so that the Government does not indirectly have to pay high rent; or is there a bill providing that the War Department shall have the right to reduce the wages a manufacturer is paying in order to obtain war materials at less cost?

Does Congress expect to encourage the spending of time and money in the making of new things for the war effort the same as it has encouraged workers who produce old things for the war effort by protecting the workingman's wages? It seems to me much more vital for us to develop new defense materials that will put us ahead of the Axis, than that we tell inventors that we deem it necessary to provide that some Government agency can discount the value of their services and contribution.

Nor does the word "reasonable" appearing in the bill properly safeguard the patentee. What is reasonable in time of war is whatever an autocratic agency may say. No workingman would volunteer to make guns for the Army under such a law as applied to his wages. Nor does Congress expect to take the

so-called social gains away from labor, although they have cost us far more in the war effort than any amounts paid to the research man and inventor.

Quite irrespective of what may seem to be the fact, the income and well-being of those vitally employed in the creation of new processes for production in the war effort, whether as individual inventors or as the personnel of a large research group, depend entirely upon the royalties received. If Congress expects inventors and research organizations to play Santa Claus to the war effort, why not expect the same of labor, of the farmer, and even of the Congressmen?

Real inventors are scarce in this country. We do not have enough of them. Yet it is not enough to ask them to contribute from their incomes in the form of taxes on the same basis as others. Their incomes must be reduced. Why?

Where payments of royalties to a corporation doing research might be deemed excessive, it may be pointed out that it goes to pay for increased research for the war effort or else, in most instances, 80 percent of it is returned to the Government as taxes. The Government gets its money's worth out of such payments.

It has been said that many license contracts were made with peacetime production in mind and that the large volume of wartime production results in too high a payment to the investors. Payments to research organizations are necessary to enable them to carry on in the war effort. Without such payments they could not continue to advance salaries to inventors while working on new projects. Nor can the payments or rates on one successful project be measured solely on the basis of that project. For every successful development there are many projects which fall by the wayside, and every research organization, like every individual inventor, must pay for the lost effort through that which is successful.

Every invention is a contribution of labor and a contribution to labor. In every corporation, labor, by foregoing the highest possible wage, enables management to pay for the living of research workers who in their effort make the inventions relating to new processes, new products, and new materials so vital to our war effort and our peacetime well being. In turn, these same new inventions give greater production, greater employment, higher wages, and greater security to labor, as well as greater safety and security to our Nation.

I speak of inventors as workers, for, indeed, they are. One man's labor in the research field may be the equivalent of a million men in the war effort. It may save a million lives. The amount paid to one inventor or group of inventors may encourage another who succeeds in the endeavor. Can it be said that the amount paid to the first was unjust even though, for a slim invention? Let us not begrudge it.

It is high time that we quit picking on groups and classes of individuals and started looking at principle. I suspect that if this bill is passed, we will soon hear of another where Congress, made up largely of lawyers, will be asked to provide that some administrative agency can insist that a manufacturer client of some Congressman paid too much for his legal services a year ago and that he must refund it to the client or to the Government.

I, personally, am opposed to any bill that is not sound in principle, and I feel that this bill is not sound.

Sincerely yours,

ELWIN A. ANDRUS.

THE PATENT LAW ASSOCIATION OF CHICAGO,
Chicago, October 9, 1942.

Re H. R. 7620.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House of Representatives,
Washington, D. C.

SIR: We are informed that Secretary Stimson in his letter requesting the enactment of the proposed legislation said that, in a number of instances, manufacturers with whom contracts for the production of articles for the War Department had been placed were found to be manufacturing under license agreements entered into during peacetime and binding those manufacturers to pay specified royalties. The Secretary said that under peacetime conditions those royalties were fair and reasonable, but, when applied to the enormous quantities needed for the war effort, the royalty rates are regarded in some cases as exorbitant, excessive, and unfair.

In view of this, the Patent Law Association of Chicago, through its legislative committee with the approval of its board of managers, wish to approve the bill in principle and to offer the following suggestions:

Section 1, page 1, line 9, after "which" insert "under the changed conditions caused by the state of war."

Line 10, after "excessive" insert "as applied to wartime production directly or indirectly for the United States".

Page 2, lines 5 and 6, before fixing and specifying the rates or amounts of royalties, the licensor or licensors should be given notice of, say, ten days and an opportunity to be heard.

Section 2, page 3: Many departments and agencies have insisted that the contractor indemnify the United States against all claims for infringement of patents or for royalties, etc., and the bill should be amended to provide that, in case of recovery in a suit against the United States, the United States should have no claim against the contractor under any such indemnity provision.

Section 2 should also be amended to provide for suit in the United States district court in any district in which a licensor is an inhabitant instead of in the Court of Claims. The preference for the appropriate district court is in line with H. R. 6852, section 2. Jurisdiction in any district in which a licensor is an inhabitant would take care of instances where the licensors were joint patentees or joint owners and were inhabitants of different districts.

Section 3, page 3, line 17, after "patent" (second occurrence) insert "of the United States" to make the language correspond to section 1, line 4.

Section 4, page 4, line 7, after "shall" insert "thereafter" and in lines 10 and 11 strike out "or by way of refund to the Government if already paid by it to the licensee". This is suggested to prevent the proposed law from being retroactive and imposing a hardship upon licensees who have already been paid and upon licensors who shall have already received royalties and who have made commitments, paid taxes, or otherwise acted with respect to the money in a way that would make refund difficult or impossible.

Section 6, page 4: The act of June 25, 1910, as amended July 1, 1918 (40 Stat. 705; 35 U. S. C. 68) does not apply where the use or manufacture by or for the United States is with license of the owner or lawful right to use or manufacture the same (*Deforest* v. *United States*, 273 U. S. 236; 71 Law Ed. 625; 1927) and it might cause confusion to amend that act by legislation, which is directed particularly to license contracts. But, be that as it may, lines 24 and 25, page 4, and lines 1, 2, and 3, page 5, appear to be too limited with respect to the authorization or consent of the Government.

Must the "authorization or consent of the Government" be given expressly to a contractor and to his subcontractor?

Will mere acceptance by the Government supply the authorization or consent?

Will mere knowledge by the Government's agent of what the contractor proposes to furnish be sufficient to supply tacit consent?

Must the contractor get express authorization or consent to make the law cover his subcontractor's use of a patented process rather than an unpatented process because the patented process is better, cheaper, or faster than the unpatented process?

When the contract with the United States or with the subcontractor is for something that must be designed and developed, does the failure or inability of the United States to give specifications supply the necessary "authorization or consent of the Government" for what is designed and developed and for the use of the most expedient process in development or production?

These questions will illustrate how the present language would leave many conditions in doubt.

Yours very truly,

L. B. MANN,
Vice President.

CHRISTY, PARMELEE & STRICKLAND,
Pittsburgh, Pa., October 6, 1942.

Hon. CHARLES KRAMER,
House Office Building, Washington, D. C.

DEAR MR. KRAMER: I appreciate your courtesy in sending me a copy of H. R. 7620. I have read it, and it seems to me to be a well-conceived and desirable item of legislation. So regarding it, I do not desire to attend

the hearings, and if anything should arise to change my judgment, I will let you know.

I have two or three times encountered a practice that seems to me quite indefensible and wrong—the practice on the part of Government agencies on entering a contract for the supply of patented material, to require of the patentee that, beyond the immediate field of the contract, he surrender in favor of the Government all his patent monopoly. This seems to me to be contrary to the spirit of the patent law, unjust, and under the circumstances tyrannical. The bill, if enacted, will tend to correct that practice.

Yours respectfully,

BAYARD H. CHRISTY.

CLEVELAND, OHIO, *October 13, 1942.*

CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

I respectfully urge upon House Patent Committee that H. R. 7620 should contain provision that where a Government department proposes to take action to reduce the royalty provided by a license contract the owner or licensor should in all fairness be given an opportunity to be heard and present any reason he may have why the royalty should not be reduced or not reduced to the extent contemplated. The licensor is a party vitally interested and his interest established by an existing contract should not be diminished without giving him opportunity to be heard.

A. J. HUDSON,
President, Cleveland Patent Law Association.

WATSON, COLE, GRINDLE & WATSON,
Washington, D. C., October 7, 1942.

Hon. CHARLES KRAMER,
House of Representatives, Washington, D. C.

DEAR SIR: I appreciate your kindness in offering to me an opportunity to comment or testify on H. R. 7620. Unfortunately I am pressed for time at the moment and have been unable to give the bill anything more than a casual reading.

My immediate reaction to it is favorable, and I have no doubt that your committee will give ample consideration to the detailed procedure for which the bill provides so as to insure that royalty provisions will not be held unreasonable merely as a matter of form or by persons not qualified to pass on such matters. I can see that there may be a real need for such legislation, which is altogether a different situation from that which obtains in connection with certain bills now being considered by the Senate committee and which are, in the opinion of many who are eminently qualified to pass on them, wholly unjustifiable efforts to undermine the patent system under the guise of war legislation.

I may explain that the foregoing comments represent only my own reactions, and do not express the views of the American Bar Association or any committee thereof of which I may be a member.

Yours very truly,

FRANCIS G. COLE.

WASHINGTON, D. C., *October 16, 1942.*

Re H. R. 7620.
Hon. CHARLES KRAMER,
House Office Building, Washington, D. C.

MY DEAR CONGRESSMAN: In considering H. R. 7620, I believe that the House Committee on Patents might well consider the following comments as to the necessity for and the probable operation of the proposed bill.

According to the representatives of the War and Navy Departments little difficulty is ordinarily encountered, by virtue of existing patent licenses, in contracting for the manufacture, use, and sale of inventions, but occasionally difficulty arises where the manufacturer selected for the job is under contract

with a licensor requiring the manufacturer to pay royalties to the licensor, and the licensor is unwilling to reduce such royalties.

Under the act of June 25, 1910, as amended July 1, 1918 (U. S. C., title 35, sec. 68), the patent owner has been provided with an adequate remedy against unlicensed use of his patent for the United States. True, that act may not perhaps extend to actions ex contractu by the licensor against the licensee, but it is extremely doubtful whether any court would in any such action sustain a claim for unreasonable royalties against a licensee, based upon operations conducted at the behest of the Government.

As was brought out by Colonel Patterson, at the recent hearings before the House Patents Committee, such situations have been handled by the War Department by simply directing the licensee to carry out the operations desired by the War Department and to withhold payment of royalties, with an undertaking on the part of the Government to hold the licensee harmless against damages sustained in any action against the licensee by the licensor. In view of the conclusion reached in the next preceding paragraph of this letter, it is doubtful whether any further legislation is required.

The contention has been raised that if this bill is enacted into law, it will save the Government a great deal of money. Actually I believe it would do no such thing, but will simply create a multiplicity of suits.

If this bill is enacted into law, it is obvious that the employees of the War and Navy Departments who are negotiating the contracts will be placed under an increased responsibility with respect to contracting for royalties on a just and reasonable basis. It is extremely doubtful whether such employees are the best judges of what is reasonable and just. Probably in the majority of instances such employees will not possess sufficient familiarity with industrial problems to have any clear comprehension of the factors entering into a determination of what would be reasonable and just under the circumstances.

Moreover, the obvious tendency which would be created by the bill would be for each War or Navy Department employee who is negotiating a contract to insist on a lowering of the royalty below such royalty as might be offered by the licensor, simply to protect himself against possible criticism. Therefore, instead of the wholly desirable result of curing a relatively small number of difficult situations, the bill, if it becomes law, will probably have the effect of arbitrary reduction of royalties in the vast majority of instances. And in a great many of these instances the final result will be to encourage litigation against the Government.

Looking at the same question from the standpoint of the licensor, it is obvious that any licensor who is the sort of person who might be expected to ask for a higher royalty than would be fair and reasonable would be likely, if this bill were enacted into law, to refuse to enter into any voluntary compromise. I think that such a person would be likely to refuse to make any compromise and to force rather than to try to prevent the application of section 1 of the Act, and then, to bring suit against the United States under the provisions of section 2, hoping either to obtain a decision calling for higher royalties or to effect a compromise which would afford him higher royalties than the Government would wish to pay, were no such suit likely.

Or, to take the case of a licensor who is justifiably entitled, for reasons perhaps not fully appreciated by minor Government officials, to a certain royalty, it will readily be apparent that the bill if enacted into law will have a vicious result. It puts such a licensor at the mercy of the perhaps inadequate conclusions of the Government official with whom he is dealing. His only remedy is by way of an expensive suit in the Court of Claims where his patent is placed in jeopardy.

This is particularly so because the bill at least, as initially introduced into the House, would permit the United States not only to attack the validity of the patent but also to deny the utility of the invention. Such defenses are not proper under the circumstances as is evidenced by a long line of decisions under the 1910–18 act. The Department of Justice has taken the position that the Government should be permitted to deny the validity of the patent for the reason that failure to provide this defense would be inconsistent with the law of eminent domain. That view implies that the act is intended to work a forfeiture or seizure of the patent, which is quite inconsistent with the true purposes of the bill. Where the Government pays a royalty, it should be in the same position as a licensee, and estopped to deny the validity of the licensor's patent.

Moreover, I believe it was not brought out in the hearings before the House Patents Committee on this bill that the courts have held, under the 1910–18 act that, where the Government makes use of an invention it is estopped, under equitable principles, to deny the utility of the invention. It would obviously be inequitable to permit the Government to deny the utility of an invention, the use of which it has itself ordered, yet such is the effect of the bill, as introduced to the House of Representatives. In this connection your attention is directed to the decision of the Court of Claims in *Olssen* v. *U.S.* (25 F. Supp. 495, 87 Ct. Cl. 642).

It has been stated in the hearings that section 6 of the bill is necessary in order to clarify the application of the act of 1910–18 with respect to subcontractors. There is a good deal of legal opinion to the effect that no such clarification is required (see for example the address by Hon. Wallace H. White, Jr., in the Senate of the United States on June 29, 1942). However, if such clarification is desirable, it would seem that this purpose might best be achieved by simple amendment to the present act, and without endangering the pitfalls which are likely to follow the enactment of H. R. 7620.

In conclusion I should like to add that I believe that the War and Navy Departments have either exaggerated their problems, which a more constructive and fair attitude toward industry might easily overcome, or that they have sometimes failed to understand or appreciate the factors underlying patent royalties. For example, I am personally inclined to believe that such difficulties as they may have encountered are likely to have arisen where (1) there is involved some invention which in peacetimes does not ordinarily bring any return whatsoever to the inventor or, (2) in a situation in which the licensor has, prior to the war, issued commercial licenses to others containing "most favored nations" clauses, and while perhaps quite willing to reduce these royalties for war purposes, is unwilling to have his commercial situation, quite apart from any war uses, ruined. I have had some slight experience in the negotiation of patent agreements in connection with the war effort and where situations such as those described by the representatives of the War and Navy Departments are encountered there is usually found to be some perfectly sound reason underlying the licensor's refusal to reduce royalties. It is unfair and unwise to assume, merely because a licensor does not wish to reduced royalties, that his motives are either selfish or unpatriotic.

You will understand that the views expressed in this letter are my own personal views, as a patent attorney, and not necessarily those of any agency or branch of the Government. I do not represent any owner of a patent whose interest, so far as I am aware, would be adversely affected by the proposed act.

I am,

Respectfully,

HORACE B. COOKE.

ATLANTA, GA., *October 6, 1942.*

Mr. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Thank you very much for your letter of October 2 regarding H. R. 7620. It is unlikely that I will be in Washington at the time hearings are held on said bill; but in view of your request for comments or suggestions, I take the liberty, as an individual patent attorney, of expressing the view that this and sundry other legislation of the general type involved is both unnecessary and undesirable. The latter because it is discriminatory in being aimed at a special type of property; and the former because the Government has ample authority to deal with situations of the instant type, and presently existing machinery in the Court of Claims is entirely adequate to ultimately adjust all difficulties between the parties.

This bill would seem to merely provide additional complicating procedure, it being apparent that all controversies will either have to be adjusted or fought out in the court in the end anyway, and the answer arrived at, insofar as theory is concerned, would be the same, with or without this intervening legislation.

In my travels throughout the country I have found certain manufacturers who are disinclined to "underwrite" patent liability as required by the Government in many cases, and if in fact such reluctance is in any way impeding the war effort, it would seem that the Government should in all cases go

straight across and assume all liability, leaving the inventor to the recourse provided in the Court of Claims, where his progress, judging by the past, is apt to be slow and beset by many pitfalls, and where his chances of securing unjust enrichment at the expense of the public may be said to be de minimus.

Yours very truly,

K. WILSON CORDER.

DARBY & DARBY,
New York City, October 5, 1942.

HON. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

MY DEAR CONGRESSMAN KRAMER: This will acknowledge the receipt of your favor of the 2d, enclosing a copy of H. R. 7620.

Unfortunately, my professional engagements prevent my attending, especially on Tuesday, October 13, the hearings on the above bill. However, in the hope that it may be of assistance, I express my disapproval of the bill for the following reason:

I have repeatedly put myself on record as opposing any legislation which permits or has as its object the direct or indirect payment of patent royalties to manufacturers of governmental materials for supplying such materials to the Government during war. In other words, to me the payment of such patent royalties by the Government during the exigencies of war is repugnant to every elementary principle and thought. The American public is being taxed to the utmost of its capacity to permit the carrying on of the war to a successful conclusion. The public is carrying that burden, heavy as it is, willingly and faithfully, and in realization of the fact that its burden in this respect is going to increase from year to year, and be coupled with sacrifices and living deprivations constantly increasing in number. The public faces this with the grim determination to carry its load uncomplainingly and to effectively meet every demand made upon it. It is difficult to swallow the idea that part of this burden is the payment of patent royalties.

The winning of the present war is necessary to insure inventors and patent owners a continuation of their status as such. Most of the patent owners are engaged in manufacturing equipment for the Government for a profit. To say that the Government should not be entitled to use any inventions of such manufacturers without payment of royalty for the successful prosecution of the war, is to put the industrial profiteer on a plane over and above that of the American fathers and mothers who uncomplainingly give their sons and their sons' lives to the Government for that purpose.

The act of 1910, as amended in 1918, magnanimously, affords patent owners the most that they should be entitled to, namely, the right to sue the Government in the Court of Claims for compensation for Government use of their patent rights. That is the most and all of a monetary consideration that a patent owner is entitled to by the patent statutes even in the industrial fields. Why should he be entitled to more in the governmental field? I therefore say that the bill should be framed on a different line, and have as its basis the mandate to the departmental heads to revoke every patent license between a patent owner and anyone else—including the Government—which requires the payment of royalty to the licensor for equipment made by or for the patent owner and sold directly or indirectly to the Government, for use by or for the Government, and to compel refund of any royalties so paid, which, either as royalties per se, or as part of the purchase price, is reflected in the total sum paid by the Government.

Cordially and sincerely yours,

SAMUEL E. DARBY, JR.

THE DOW CHEMICAL COMPANY,
Midland, Mich., October 7, 1942.

HON. CHARLES KRAMER,
Chairman, House Committee on Patents,
Washington, D. C.

MY DEAR CONGRESSMAN: Your letter of October 3 to Mr. Thomas Griswold, Jr., has been referred to the writer as the active partner in the firm of Griswold &

Burdick, which functions as the Patent Department of The Dow Chemical Co.

With respect to H. R. 7620, various questions occur to me. Is this kind of a law necessary or even important to the war effort? Is the Government at present forced to pay, directly or indirectly, an unreasonable royalty under any specific patents controlling the production of war goods? If there are such specific cases, could not the difficulty be resolved by negotiation without need for special legislation? The Government is able to renegotiate contracts for war goods if the price is excessive. Why not do the same when patent royalties are too high?

In the Government contracts with which the writer is familiar where patent royalties are involved, the royalties have been set at a low figure, much below what would be considered reasonable in normal times. In negotiating such contracts the Government can, and does, insist on low or nominal royalties.

The vice of the bill is that the decision in any particular case as to whether a royalty is unreasonable or excessive is left to the arbitrary judgment of any delegated Government official without giving the accused offender a chance even to state his case. This would open the door to unregulated harassment of Government contractors and subcontractors by any petty Government official who might be delegated to exercise authority. The remedy of suit in the Court of Claims is wholly inadequate, owing to the notorious delays and costs of such suits. A claimant might easily die or go broke before he could get a decision.

Under the bill each department, agency, bureau, or office would be a law unto itself on the question of reasonable royalty, and in each case the decision would doubtless depend upon a particular man having the delegated authority at the time in each office. Under such a system there could be no uniformity of treatment of contractors who would be subjected to the operation of such a law.

In these wartimes, the contract-making agencies of the Government have wide authority to impose conditions upon private contractors. It is thought that the power of the Government is ample to protect it against overcharges in royalties by private contractors without need for a new law as proposed in this bill. To set up a new class of petty bureaucrats would likely create more confusion in the war production program without compensating savings to the Government.

This is merely an expression of the writer's personal opinion, and has not been authorized by any official of this company.

Respectfully,

E. C. BURDICK.

HARRIS, KECH, FOSTER & HARRIS,
Los Angeles, October 9, 1942.

Re: H. R. 7620.
Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House Office Building,
Washington, D. C.

DEAR MR. KRAMER: I wish to thank you for sending me a copy of the above bill, and in response to your invitation I make the following comments thereon.

The bill provides in effect that the head of any Government department or agency, or any person authorized by such head, may by order fix the royalty that may be paid to any patentee on any article or service ordered by such a head. It gives the patentee a right to sue the Government for the royalty he would have collected had the order not been issued, but provides that if he sues the Government in the Court of Claims, the Government is sued as an infringer, with all the defensive rights of an infringer.

The bill in effect empowers any head of a governmental department or agency, or any person authorized by such a head to order a breach of any existing patent license agreement, if the Government desires to use the invention covered by said license. This official or officer issues an order that the royalty provided for in the agreement shall no longer be paid, and the licensee is thereby relieved of his obligation to pay royalty to any extent provided for in the order. The licensor then sues the Government just as it would sue an infringer. Under this bill, any existing license agreement, as far as dealings with the Government are concerned, may be breached to the extent of the order.

We have had a statute, 35 United States Code 68, on the statute book for more than 30 years, which provides that only the Government can be used for an infringement ordered by the Government. Although this statute somewhat abridges the rights of patentees, it has, I think, proved its worth. If the Government orders anyone to commit a tort, it is quite equitable that the Government should be sued. Of course, in actual practice Government contracts usually contain a clause under which the actual infringer agrees to reimburse the Government if damages are awarded in a suit against the Government. The important thing to remember about 35 United States Code 68 is, however, that it does not take away any right to damages; it merely changes the forum and the defendant without in any way minimizing the damages or otherwise affecting the patentee's rights.

The proposed bill provides that if the Government orders a breach by a licensee of his agreement with the licensor, the licensor cannot sue the licensee for this breach, and it further provides that it cannot sue the Government for this breach but must sue the Government as an infringer. The suit against the Government might ostensibly be in the nature of a breach of contract suit, but it is in fact an infringement suit, since the Government can avail itself of all defenses available to any infringer. The difference is this: Under present laws, if a licensee breaches a patent license contract and is sued for the breach, the licensee cannot dispute either the ownership or validity of the patent; the licensor simply has to prove the existence of the contract, the breach of the contract, and establish the amount of the damages. Under the bill, the Government does not step into the licensee's shoes as a breacher of the contract, but in effect the contract is entirely eliminated, and the Government defends just as if there had never been any contract. The Government says to the licensee, "We do not like your contract; we declare it null and void, and if you do not like it, sue the Government as an infringer in the Court of Claims."

I do not know the source of this bill. I presume some Treasury sleuth found some corporation juggling funds through royalty agreements. We seem to be in a "must have a law" period in which, every time some official sees some crook using an automobile to escape in, the official drafts a law to force everyone to use square wheels on his car, so that it will be easy to catch the crooks. The innocent bystander, in this case the inventors of the country, is usually the only victim of such laws. The crooks start using planes.

I am not prepared to discuss the constitutionality of this bill. As far as I know, 35 United States Code 68 is constitutional. In *Pierce* v. *Submarine Signal Co.* (25 Fed. Supp. 862), Judge Sweeney held it constitutional on the ground that, although it had taken away from the the patentee the right to use the manufacturer, it had given him "an equal right" to sue the Government. The bill under discussion does not do this. It takes away the right to sue the manufacturer for breach of contract and merely gives the patentee the right to sue the Government as an infringer, which is certainly not an equal right. I have been unable to find any other case in which the constitutionality of 35 United States Code 68 has been been passed on. I do not feel competent to pass on questions of constitutional law even after more study than I have given this matter. It does look to me, however, that under the act property may be taken without due process of law, and that private property is taken for public use without due compensation. This question of constitutionality must be referred to more competent minds than mine, and has undoubtedly been considered or will be duly considered by the committee. My opinion that it is unconstitutional is entitled to very little weight.

The practical aspects, and particularly the results that will follow is enactment, are main questions before the committee, and perhaps I can throw some faint light on these questions.

In case of many bills of this character, we are limited to mere speculations as to the probable effect of the bills. In relation to this bill, I happen to know of an actual recent case, which may show how the bill will operate, and a recitation of the facts of this case may help your committee to pass on this bill. One actual case is often better than a vast amount of theory. These facts are as follows:

A machine-gun chute is an open conduit or channel which carries to a machine gun a belt of ammunition from the box in which the ammunition is transported to or stored for the machine gun. Such chutes are of especial importance in connection with heavy machine guns used in planes and tanks. It should be understood that heavy planes and tanks have gunners who shoot from the side, rear, and top of the plane or tank from swivelled guns, and these chutes guide

the ammunition belts from the fixed box to the swivelled gun. The chutes must be all metal, light, strong, and very flexible, so as to feed the gun however it is turned. The Government has been buying one design of these chutes in quantity for some time.

Mr. Howard B. Lewis, of this city, is an engineer with a great deal of inventive ability and sound common sense. He is not only an inventor who can design, but he also can get things done. He is not a good financier, however, and I suspect he has made very little money up to date. He saw these chutes, and the more he saw of them, the more he thought he could make a better one. Using his own time and money, and perhaps some contributions from relatives and friends, he began designing and experimenting. I know nothing about where this money came from, and I do not have exact knowledge as to the financial status of Mr. Lewis or his project. I am not his patent attorney in relation to this invention, and I have no interest therein. He designed a new chute, tested it, designed tools to make it, and found a local concern, Smoot-Holman Co., who figured costs with him. He then went to Washington, submitted a chute and got it approved, and an order was given Smoot-Holman for about $800,000 worth of them.

He got this order largely because his chute is a much better chute than any previously available. A gunner in a bomber with his chute is more likely to put his bullets into a Zero than the boys now in the Solomons are, because the Lewis chute is more likely to function properly than its predecessors. We cannot, and I shall not, attempt to evalute in money the value of the Lewis invention as a bomber and life saving invention. Such values cannot be expressed in dollars. We can, however, evalute the invention, ignoring its value as a better chute. The Government is saving more than two-thirds of the cost of the old chutes, or, to put in dollars and cents, the Government is saving a million dollars, on this first order of chutes. This million dollars is not as important as the million man-hours that are saved in making the new chutes. By his invention, Mr. Lewis has saved the time of a thousand men during the next 8 months, or, putting it differently, he has made available a thousand more skilled workers for the next 8 months who would otherwise have been making the old chutes, and has saved the money to pay them. More than that, he has probably made these men available for the duration as other orders must be filled. It is impossible to say what a thousand such men are worth in the United States today, and I shall not attempt to place a value on them. Neglecting the value of the Lewis contribution as a life-saving invention and as saving the time of a thousand men, we can, however, say that it was worth a million dollars to the Government, since that is what the Government saved in real money.

Mr. Lewis was not, however, after a million dollars; he was trying to make a better and cheaper chute, so that bullets would get out of a box into the guts of a Jap. The contracts with Smoot-Holman, I am informed, originally contained a provision that no royalty or commission should be paid Mr. Lewis, and this condition was imposed by any Army officer, who knew Mr. Lewis had made a better chute and had saved the Government a million dollars and released a thousand men. The contracts were drawn under the direction of one of the men who would fix royalties under your bill, and probably fairly represent what will happen under this bill. Mr. Lewis was naturally somewhat astonished to find he would get no pay for his time and would not be reimbursed for the money he had spent. He, nevertheless, went right ahead, and there have been no delays in getting these chutes into production. Mr. Lewis took the position that the man behind the gun came first. Perhaps the Government has now reluctantly decided that Mr. Lewis should be reimbursed for his expenses and tipped a few thousand dollars, but as to that I am not informed. If Mr. Lewis gets anything, it is a gratuity dependent upon the whim of an official or officer.

This is exactly what may happen under your bill to any inventor. The remedy of suing for infringement in the Court of Claims is illusionary. A large corporation can afford to spend years of time and large sums in counsel fees pursuing the Government through the Court of Claims. A poor inventor would have to take whatever dole was handed him and try to like it.

There are several practical disadvantages of this theory that it would be a good thing to put the inventors on the dole. In the first place, it will greatly retard, if not entirely stop, the development of inventions.

Inventors who have bright ideas are, in general, perfectly willing to give them to the Government and take a chance on what the Government is willing to give them. Bright ideas taken alone are not of much importance. It takes time and money and intelligently applied effort to make them a reality. The average inventor has little or no money, and he usually is stopped as soon as he has conceived the idea and perhaps gets his patent. It is the history of all important inventions that someone with faith and energy poured time and money into them, often in the face of great opposition, and often ridicule, before they became a success. If Mr. Lewis had merely sent a drawing of his chute to Washington, there is small chance that the chute would ever have been made. Few inventions will be developed if the returns from them are dependent on the whim of some official or officer. The inventors will probably continue to lay eggs, but no one will be willing to hatch them if this bill becomes a law, and in this connection it might be well to point out that labor on inventions cannot be forced, and I do not believe any Governmental agency can apply competent and intelligent effort to patent development.

In the second place, the bill is quite unnecessary. Royalties from inventions are income and subject to income taxes. If the Government had paid Mr. Lewis the million dollars he saved, 90 percent of it would have gone back into the Treasury in income taxes. We have a client which has made a very great contribution to the war effort, which is a corporation, and which, therefore, if it collects $800,000 in royalty this year, can retain only $30,000 after it pays taxes. If this corporation owned the Lewis invention, which is not a fact, and if it earned $1,000,000 additional in royalties on the Lewis invention, it could retain only $ 6,000 of this royalty. If its royalty collected was the rather usual 5 percent of the value of the chute, its royalty retained would be less than one-fifth of 1 percent. Profits of this magnitude do not tend to promote inventive or development activity and certainly do not greatly burden the economy. If anything sells for $5, a cent royalty does not seem exorbitant.

It may be true that patent royalties can be used in a few rare cases to slightly minimize income taxes, but the Treasury eventually catches up with royalty dollars. Certainly, no inventor, regardless of how great his contribution to the national welfare may be, can hope to become a millionaire by collecting royaty, as he has to pay taxes on it.

In the third place, the bill is unwise. I am unable to understand this constant "sniping" at inventors. If we win this war, it will be because we have more and better machines than our enemies. Right or wrong, we are now committed to this theory, and a large part of our national effort is devoted to producing more and better machines. All our machines are the brain children of inventors. Thousands of inventors have contributed to produce what we have today. Without invention we would still be naked savages.

It is entirely possible that a single inventor may make an invention that will win the war. It is a fact that a large number of inventors are now trying to win the war. Very few of them will produce any startling inventions, but, collectively, their efforts are of great importance, and the invention of Mr. Lewis is typical. These men are one of our important forces, and they deserve every encouragement. In place of encouraging them, they are being constantly repressed.

Income tax tends to hamstring inventors. People with money have always been reluctant to back inventors. Today they refuse because, if the invention is a failure, they lose their money and, if it is a success and makes profits, these profits are absorbed by taxes. It is "heads the Government wins, and tails the investor loses." The inventor and his backers cannot keep any substantial portion of profits from an invention. The net profit is already very small; if the gross is to be reduced by some Government official, no wise man will make superhuman efforts to make and develop inventions. As to inventors, they have to eat and their families have to eat, and if they cannot eat and invent, they will not invent.

The present attitude of the courts is most unfavorable to inventors, and I do not favor further handicapping inventors. We now have the Supreme Court saying that only a "flash of genius" merits a patent, and the inventors face hostile courts in attempting to enforce their rights. The invention of Mr. Lewis was, perhaps, not such a flash of genius, but it resulted in a thousand more men in our factories and provided the money to pay them. The investor, faced with the income tax and hostile courts, must be very brave, if not reck-

less, when he lets any of his fast-fading dollars go to help an inventor, even under present conditions, and this bill will make these conditions worse.

The present unfavorable situation as to inventors is rather unfortunate as if and when, if ever, we win this war, we will need a flood of new inventions to provide employment for our men and tools.

In place of constantly discouraging inventors, the Government should encourage them. This is too much to expect. Those who profess a desire for a new social order, in which there will be plenty for all, seem particularly hostile to inventors, which is extremely hard to understand. The surest road to plenty is through invention. Farm machinery makes food cheap; the man who formerly swung a scythe, probably one of the hardest forms of manual labor, now rides a mowing machine; the reaper who formerly cut wheat with a sickle and laboriously bundled it now rides a harvester.

Personally, I have never seen or conceived a better method of rewarding inventors than that existing today, namely, a royalty system. If the invention has no value, no one pays royalty; if it is good, the royalty is proportionate to its merit. The reward to the inventor can never be excessive, since no one is willing to pay more royalty than the thing is worth. I do not think it wise to substitute any system of doles handed out by Government officials or officers for a system that has always worked so well. I therefore recommend that the bill be disapproved.

I shall not apologize for this long letter, as the bill is of great importance. I wish I could attend your sessions, as it would be highly educational for me, but I am afraid I cannot justify leaving my work here, which I regard as some small contribution to the national effort, as my contributions to your knowledge would be extremely meager. I am, however, sending a copy of this letter to each member of your committee, and hope it is worth the time needed to glance over it.

I think I may take the great liberty of saying that I think you are to be congratulated on the ability of the men on your committee, and that the Nation is very fortunate in having men of this type working on these problems. I have gradually come to have an increased respect for our Congressmen based on the record, and I wish to assure you that if this bill passes, I shall not regard it as a blot on that record, as I shall feel that those who objected to the bill have been given their day in court before a competent tribunal.

Yours very truly,

FORD W. HARRIS.

HAWOOD AND VAN HORN,
Cleveland, October 8, 1942.

Mr. CHARLES KRAMER,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Thank you for sending me the copy of H. R. 7620 and for telling me about the hearing. It is very improbable that I will be able to be in Washington next week, having just returned from there. I would have looked at your office, but was tied up completely until after time for the military guard to be posted for the night. Of course, that makes it a little difficult to get around in the evening as I used.

The first thought that strikes me on reading H. R. 7620 is that it obviously intends to function only in depriving inventors of securing the royalties to which they should be entitled. I look in vain for any provision that royalties which seem to be unreasonably low may be raised by the Government, or that where a contractor has refused to pay a patentee that it may direct that the inventor be paid.

There probably are more royalties which are too low than those which are too high. How about the old proposition that it is a poor law that does not work both ways?

Of course, under the existing law the inventor has no right of action for things made for the Government, other than in the Court of Claims, if he does not receive his royalties.

I have been greatly concerned lately as to the probable interpretation of contracts written by the War Department, and what bearing they would have on 35 United States Code 68 (R. S. 4919).

In particular, I refer to a paragraph which is being used by the Ordnance Department here, and which I understand they identify as Standard Clause No. 20 which reads as follows:

"The contractor shall hold and save the Government, its officers, agents, servants, and employees, harmless from liability of any nature or kind, including costs and expenses, for or on account of any patented or unpatented invention, article, or appliance manufactured or used in the performance of this contract, including their use by the government."

Now, if the patentee cannot sue the contractor but can only bring action against the Government in the court of Claims, and if the Government refuses to assume liability for any amount that may be awarded him, but passes the "buck" to the contractor, I am very apprehensive that many of the nonsubstantial "mushroom"-type of contractors will infringe with impunity, and the poor inventor will find nothing on which to levy, as, if, and when he ever gets a decision out of the Court of Claims.

It might be of interest to point out that most patentees do not regard the right to sue in the Court of Claims as any safeguard at all, but that when this possibility is brought to their attention, they say, "Oh well, if I sue there, it won't be decided until after I'm dead."

Certainly this frame of mind is not conducive to promoting "the progress of science and the useful arts."

May I not suggest that, if there is so much concern about the question of royalties, it would be much more to the point to make the contracts based upon prices which are definitely stated to be exclusive of any royalties, and provides that the Government would guarantee payment of the same when awarded by the courts, so that the inventors would feel assured that their interests would be taken care of properly, eventually.

I think if they had this feeling there would be no inclination on their part to disturb contractors on war work, but that the whole subject could be held over until after the "duraton."

Thanking you again for this opportunity of expressing myself on the bill, I am,

Yours sincerely,

HARVEY R. HAWGOOD.

HEARD, SMITH & TENNANT,
Boston, October 5, 1942.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House of Representatives,
Washington, D. C.

MY DEAR MR. KRAMER: I have your letter transmitting a copy of H. R. 7620 to provide for adjusting royalties for the use of inventions for the benefit of the United States and for other purposes, and I appreciate your giving me an opportunity to examine this bill.

The bill is evidently intended to amplify the provisions of the act of June 25, 1910, as amended in 1918 and to relieve the Government in wartime from an excessive increase in the cost of goods purchased by it due to the inclusion in the cost of royalties under patents previously agreed to by the manufacturer.

I can see no objection to such a law.

There are some minor points to which I might call attention.

I think it would be well in section 1, line 16, page 2, to change the word "additional" to "such excess" because the term "excess" is employed in line 12.

In section 5 when the authority and discretion conferred by the act is delegated it must, as provided in line 14, be "in writing". It seems to me that this provision "in writing" should also appear after "authorized" in line 17 and again after "delegation" in line 18, so that there may be no chance for oral directives being employed which might well result in litigation.

I do not understand the purpose of section 6 of the bill. It seems to me unnecessary as adding nothing to the law. Should there not be inserted before "manufacturer" in line 2, page 5, "only for the"?

Very truly yours,

NATHAN HEARD.

MILWAUKEE, WIS., *October 12, 1942.*

Hon. CHARLES KRAMER,
House of Representatives, Committee on Patents,
Washington, D. C.

DEAR MR. KRAMER: I received and I thank you for your letter, dated October 2, 1942, and copy of H. R. 7620, a bill for adjusting royalties for the use of inventions for the benefit of the United States.

Having recently completed my term as president of the Patent Law Association of Milwaukee, I turned over your letter to Mr. E. B. H. Tower, Jr., 735 North Water Street, Milwaukee, my successor as president of our local association. The bill has been given consideration by Mr. Tower and the legislative committee of our local association, and your committee will be advised as to their recommendations.

I would make the comment that H. R. 7020 appears to me to be one of the most practical, as well as the best drawn, bills that have been presented recently in connection with establishment or revision of the Government's rights with respect to the use of patented inventions. However, notwithstanding my favorable general opinion of the bill, I think that it could be improved in several instances, particularly in the interest of definiteness and more reasonable and equitable treatment of licensors and licensees; and I am offering suggestions for revision of the bill, in my attached letter to the committee. I would ask you to kindly turn over the attached letter to the committee for its consideration.

Sincerely yours,

J. J. KANE,
Past President, the Patent Law Association of Milwaukee.

MILWAUKEE, WIS., *October 12, 1942.*

H. R. 7020.

HOUSE OF REPRESENTATIVES,
Committee on Patents,
Washington, D. C.

GENTLEMEN: From my consideration of H. R. 7020, a bill for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, the bill appears to be a very sane and practical approach and a well-drawn proposal toward establishing a workable situation with respect to royalty payable in connection with such inventions. However, there are several modifications, indicated hereinbelow, which I believe should be made, in the interest of providing greater definiteness and more equitable treatment of licensors and licensees.

SECTION 2

The apparent intention of the bill is to provide fair compensation to patent owners or licensors for use of inventions by or for the benefit of the Government; and it recognizes the likelihood of differences of opinion as to what constitutes a fair royalty. However, the method of determining a fair royalty in disputed cases, i. e., through suit in the Court of Claims, is a notoriously slow procedure. Having in mind that the royalty charged by the licensee to purchasers is very often one determined by a prior contract between the licensor and licensee, it is extremely desirable that in any disputed case the patent owner or licensor be free to obtain a review of the question of what constitutes a fair royalty, in a much speedier and more expeditious manner than can be secured through suit in the Court of Claims. This can be accomplished through a review by the district courts of the United States. I believe that this section can very properly and fairly be amended as follows:

Section 2, line 5, after "Court of Claims" insert "or the District Court of the United States for the District of Columbia or the District Court of the United States for the district wherein the patent owner or licensor resides or has his principal place of business."

SECTION 4

The intention of the bill, particularly insofar as appears from section 1, is apparently that any reduction in royalty ordered by the Government will be borne by the patent owner or licensor; and this seems to be right and proper. But the present wording of section 4, particularly the last two lines thereof, leaves a definite implication that the "refund" referred to is one by the licensee to the Government, without any provisions for a corresponding refund from the licensor to the licensee where the latter has made refund to the Government. It usually happens that royalty is often required, by contract between the licensor and licensee, to be paid by the licensee prior

to final settlement with the licensee by the purchaser of the licensed apparatus; and operation under sections 4 and 7 of the bill permits the Government order for reduction of royalty to be rendered subsequent to payment of the full royalty by the licensee to the licensor. Particularly with this in mind, the bill should be amended to the extent of definitely providing that the licensee be relieved of the obligation of absorbing any reduction in royalty ordered by the Government. This can readily be accomplished by either of the following amendments:

Section 4, last line, change the period to a comma and add "such refund to be made by the licensee if the royalty has not been paid to the licensee to the licensor, and to be made by the licensor if the royalty has been paid by the licensee."

or alternatively:

Section 4, last line, change the period to a comma and add "such refund to be made by the licensee, but in the event that the royalty has already been paid by the licensee to the licensor, the latter shall make refund in like amount to the licensee."

SECTION 8

It is believed that the wording of the first sentence of section 8 is of such general character as to permit a great variety of rules and regulations issued by the various departments and agencies of the Government, and this will result in considerable confusion among patent owners and licensees furnishing materials and inventions to the Government. It seems particularly desirable that there be some single source (such as the Commissioner of Patents) of issuance of rules and regulations, applicable to the various departments or agencies, concerning the matter of reduction in royalties, or that the scope of the rules and regulations issued by the individual departments or agencies, and information required by the latter, be of reasonably limited scope. It is believed that desirable improvement could be effected by either of the following amendments to section 8.

Section 8, line 4, change the period to a comma and add "with respect to inventions whose manufacture, use, sale or other disposition is ordered by such department or agency under the provisions of this act.

or alternatively:

Section 8, lines 1 and 2, change "head of each department or agency of the Government" to "Commissioner of Patents."

Line 3, after "information" insert "to be furnished to any department or agency of the Government with respect to inventions whose manufacture, use, sale or other disposition is ordered by such department or agency."

I trust that the suggestions hereinabove may be of benefit in your arriving at a satisfactory form of bill to take care of the situation in question.

Sincerely yours,

J. J. KANE,
Past President, the Patent Law Association of Milwaukee.

MANUFACTURERS AIRCRAFT ASSOCIATION, INC.,
New York, October 6, 1942.

CHARLES KRAMER, ESQ.,
Chairman, Committee of Patents,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Your letter of October 2d with reference to the forthcoming hearings on H. R. 7620 has been received and needless to say we are very appreciative for your consideration in connection with this matter.

The proposed legislation having to do with the adjustment of royalties affecting production for the Government has been studied with care, and it is our impression that the same has more to do with licenses negotiated with individual patent owners and royalty fees paid by subcontractors and other companies furnishing material to the primary contractors than it does with patents coming within the operation of the cross-license agreement administered by this office. Nevertheless, we desire to do what we can to assist your committee in the consideration of this bill and will be pleased to advise you further with reference to possible appearance at the hearings as soon as the views of our membership have been received.

I doubt very much if it will be possible for us to have anything for you by October 13 but will do our best to obtain a prompt response from the various aircraft manufacturers who might be interested in the legislation of the character at present being proposed.

Again thanking you for your cooperation with respect to the above, we remain

Yours very truly,

JOHN A. SANBORN,
General Manager.

MILWAUKEE, WIS., *October 12, 1942.*

Hon. CHARLES KRAMER,
Chairman, Committee of Patents,
House of Representatives, Washington, D. C.

The Patent Law Association of Milwaukee approves purport of House bill 7620, but deems that licensor should be given right to make showing before administrative tribunal to readjust royalty fixed by agency in first instance and right to obtain review by Federal district court of final decision by administrative tribunal according to procedure prescribed in House bill 6852, section 2, and that licensee should be saved from becoming liable to indemnify Government for any additional royalty granted on review either by administrative tribunal or Federal district court.

EDWIN B. H. TOWER, Jr.,
President, the Patent Law Association of Milwaukee.

PACKARD MOTOR CAR COMPANY,
Detroit, Mich., October 14, 1942.

Re H. R. 7620.
Hon. CHARLES KRAMER,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: I have a copy of this bill which you introduced recently and I have been much interested in it. I can well understand how the expansion of production in some industries due to the war would cause royalty payments of very unexpectedly large proportions, and certainly the royalties in those cases should be revised.

Packard has always been an advocate of low royalty rates, whether on the licensor or the licensee end of a contract. This is because we believe that in most cases it is just as important to produce and market a device as it is to design it.

I am sorry I could not attend the hearing on the bill yesterday but I would be interested in learning the results thereof. If there is a printed report, may I have a copy?

Very truly yours,

MILTON TIBBETTS,
Vice President, Packard Motor Car Co.

DEPARTMENT OF COMMERCE,
Washington, October 5, 1942.

Hon. CHARLES KRAMER,
Chairman, House Committee on Patents, Washington, D. C.

MY DEAR MR. CHAIRMAN: This will acknowledge your letter of October 2, 1942, advising me of the hearings on bill H. R. 7620 set for October 13, 1942, before your committee.

I have considered the provisions of the bill and am in sympathy with the purposes which it is designed to accomplish.

If I am unable personally to attend the hearings, I shall designate someone else to represent the Patent Office.

Cordially yours,

CONWAY P. COE, *Commissioner.*

ROCHESTER, N. Y., *October 10, 1942.*

Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN KRAMER: I have your letter of October 3 re H. R. 7620.

Our Rochester Patent Group has given considerable thought to this bill and devoted the whole of its meeting of yesterday exclusively to its consideration.

We are completely in sympathy with the idea that no one should make undue profits because of the war emergency.

H. R. 7620 we feel, however, should provide that before an order is issued reducing a royalty there should be a hearing at which both the licensor and the licensee are entitled to be represented and heard.

Moreover, some provision should be made to insure uniform treatment of the license agreement by all governmental departments concerned. Under the bill as drawn, it is possible for the head of one department, say, the Secretary of War or his subordinate, to order one reduction in the royalty, and the head of another department, say, the Secretary of the Navy or his subordinate, to order a different reduction in the royalty.

We would suggest further in the interest of uniform handling that either the Congress itself provide in the bill some criterion by which the reasonableness or unreasonableness of a royalty might be judged or else that some authority, perhaps a district judge, be set up to pass on the reasonableness of a proposed reduction in royalty before an order for such a reduction be issued. The fixing of a royalty should not be left to the whim of whatever Government official might act in a particular case. There should be some assurance that under like circumstances, a licensor would be accorded the same treatment no matter with what Government department his licensee is dealing.

Further some limitation should be placed on the power to order royalty reductions. Under the bill as drawn it would be possible for a Government official, if he was of the opinion that a specified royalty was excessive, to order a reduction in that royalty even though the licensor might be receiving actually less return from his invention under war conditions than he would receive if the country were at peace (inventions applicable to automobiles and their accessories fall in this category). The bill should safeguard against arbitrary action.

So far as the provision for suit in the Court of Claims is concerned, we believe that a review of the record of this court, for the last several years or for even the last 25 years, will show that this offers the licensor little or no hope. It is practically useless for an inventor to bring suit in this court. The licensor should be given the alternative of suing in a Federal district court.

On the whole, while we are, as stated at the outset of this letter, wholly in sympathy with the idea that no one should profit unduly by reason of the war emergency, we wonder whether H. R. 7620 is necessary. It seems inconsistent for our Government to be fighting a war to reestablish the sanctity of international agreements while telling one of the parties to a private agreement to scrap that agreement. There seems to be no more reason for the Government to tell a contractor to violate a patent agreement than for it to tell a contractor to repudiate an agreement to pay a given rent on his factory or an agreement to pay a given interest on a loan.

It seems to us that if a licensor is making undue profits on a patent the excessive profits can be taken away from him very simply through income tax without risking the danger that by putting the Government in the position of encouraging disregard of contracts, the sanctity of all contracts be undermined.

We very deeply appreciate the opportunity you have given us to comment on this bill and want to thank you again for your courtesy.

Sincerely yours,

ROCHESTER PATENT GROUP,
By B. E. SHLESINGER, *Chairman.*

SOANS, POND & ANDERSON,
Chicago, October 5, 1942.

Hon. CHARLES KRAMER,
House of Representatives,
Washington, D. C.

DEAR MR. KRAMER: Thank you very much for sending me a copy of H. R. 7620, which appears to be a duplicate of S. 2794.

You may be interested in reading some preliminary comments which I have addressed to the committee on laws and rules of the American Patent Law Association.

Yours very truly,

C. A. SOANS.

OCTOBER 5, 1942.

CHAIRMAN, COMMITTEE ON LAWS AND RULES,
American Patent Law Association,
Washington, D. C.

DEAR SIR: My attention has been called to S. 2794, the Reynolds bill, introduced September 21, 1942, and H. R. 7620, the Kramer bill, introduced September 30, 1942. These are duplicate bills.

The principal objection which I have against these bills is that the suit for fair compensation must be instituted in the Court of Claims. Everybody knows that the procedure in the Court of Claims is so expensive, tedious, and complicated, and the attitude of the Court of Claims toward patents is so pessimistic, that the possibility of effecting any recovery at all is extremely remote, and, if a recovery by any chance is obtained, it will not be large enough to pay the plaintiff for the expense of the proceeding.

Hence I say that a supposed remedy by suit in the Court of Claims does not appear to be a remedy at all. Technically yes, but practically the remedy is nonexistent. I would not have any particular objection to the proposed statute if the patentee is allowed to bring suit against the United States Government in the United States district court in which the plaintiff resides.

I am curious about the purpose of section 7, which says that sections 1 and 2 of the act shall remain in force only during the continuance of the present war and for 6 months after the termination thereof. This seems to imply that, in times of peace, it is quite all right for a patentee to obtain an extortionate royalty from a contractor who, of course, may pass it on to the United States. Or does it imply that it is all right for the patentee to receive a fair royalty in times of peace, but that in times of war he is not entitled to receive a fair rental for the use of his property? If the first inference is the correct one, then section 7 of the proposed Act should be eliminated. On the other hand, if the second inference is correct, then the entire statute is disapproved on the ground that it is confiscatory.

There is another phase of these bills which perhaps has been overlooked by the person who drafted them. I refer to the International Convention, which incidentally particularly interests me because I am chairman of a committee appointed by the American group of the International Association for the Protection of Industrial Property to investigate the question of whether the United State should withdraw from the convention.

The International Convention, article 5, referring to the revocation of a patent and the granting of compulsory licenses, says that:

"In all cases the patent will not be subject to such measures before the expiration of at least 3 years from the date of its grant and if the patentee produces just excuses."

The action of the Government department in making it unlawful for the licensee to pay more than a specified royalty, which is less than that provided for by the license contract, in effect cancels the original license contract and requires the patentee to issue to the contractor a license at a rate prescribed by the Government department. In effect, the Government issues a compulsory license which not only may affect a patent less than 3 years old, but it may affect an invention for which a patent has not issued. Hence, it can be argued that the proposed statute is in conflict with article 5 of the International Convention.

I understand it to be a principle of constitutional law that the question of whether a statute or a treaty controls depends upon which is later, and, in all cases, the later enactment is the controlling. In this respect, there is no difference between a statute or a treaty. Therefore, it would seem that the Convention may be abrogated by the passage of the proposed statute.

Leaving aside the question as to whether or not we should or should not denounce the Convention, either formally or by passage of a statute in conflict with the Convention, I am wondering what would be the effect of that provision of the Convention, article 17 bis., which says that:

"The convention shall remain in force for an unlimited time, till the expiration of 1 year from the date of its denunciation."

You understand that the only objection which I have so far discovered is the Court of Claims remedy (?). I am not ready to express any opinion as to the international convention phase of the matter, because our American group committee has had no opportunity to discuss the matter or to arrive at any conclusion as to whether or not the United States should continue its adherence to the international convention, and I would not want to express here an opinion which might be contrary to that finally arrived at by our committee.

Obviously any question in reference to the international convention could be taken care of by specifying that the statute should apply only to patents more than 3 years old, but I wonder whether such a provision would be considered discriminatory or unsatisfactory to the Government.

Yours very truly,

C. A. SOANS.

OCEAN GATE, N. J., *October 10, 1942.*

Hon. CHARLES KRAMER,
Washington, D. C.

DEAR CONGRESSMAN KRAMER: Thank you for the copy of H. R. 7620, and your letter under date of October 2. I am sorry to advise you that it will be impossible for me to be in Washington on the date given.

It appears to me, however, that a weak portion of the bill is in placing the entire matter under the jurisdiction of "the head of the department or agency of the Government." This feature, no doubt, will be cured at the hearings, of which I would like to have a copy forwarded to me. It is thought that this, or a bill on the same lines should have been introduced some time ago. God knows it would not have been done in Germany.

Most sincerely,

MAXWELL STEVENSON.

WILLIAMSON & WALTON,
Washington, D. C., October 5, 1942.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents,
Washington, D. C.

DEAR MR. KRAMER: I thank you for your letter of October 2 enclosing copy of H. R. 7620 and offering me the opportunity to comment or testify with respect to this bill.

I might say that upon reading this bill it appears to be a much better bill than some previously offered, particularly one for requisitioning or taking over patents and having the President or someone designated by him to adjust the compensation. I cannot recall the number of this previous bill.

H. R. 7620 at this time occurs to me as being one which may more readily adjust differences between the owner of the patent, the licensee, and the Government and may even reduce the extent of the inevitable litigation which will follow the conclusion of the present war. However, since I have been recently appointed on one of the committees of the American Bar Association charged with the consideration of this type of legislation, particularly as it affects suits in the Court of Claims, I think that I should refrain from making any comment which is not that of the committee and up to the present time the committee has not been able to meet. It undoubtedly will do so in the very near future.

Again thanking you for your courtesy and assuring you of my continued cooperation, I am

Very truly yours,

EDWARD R. WALTON, Jr.

WILLIAMS, RICH & MORSE,
New York, October 9, 1942.

Hon. CHARLES KRAMER,
Washington, D. C.

DEAR MR. KRAMER: I duly received your letter of the 2d instant advising me that the House Committee on Patents will begin hearings on Tuesday, October 13, at 10 a. m., on H. R. 7620, a bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes.

This bill, which you enclosed, has been carefully considered by the members of the committee on patents, trade-marks, and copyrights of the New York County Lawyers Association of which I am chairman, and I am directed to advise you that while the general purposes of the bill meet with the approval of the committee, it is nevertheless highly critical of the methods prescribed by the bill, both for adjusting the amount of royalties and for the appeal to the court if the patentee is dissatisfied with the adjustment. It is submitted that the question of readjustment of royalties should be submitted to a board appointed by the President with full power to hear evidence and act upon the application. This board should be an impartial board. The patentee, if dissatisfied, should have the right to appeal to the United States district court rather than to the Court of Claims. The Court of Claims is overloaded with business and its methods are medieval, and it is not a satisfactory court for the adjudication of the rights of inventors.

The general purposes of the bill interfere with the right of contract, but nevertheless if a proper medium is provided for carrying out the purposes of the bill, it will not be objectionable.

I shall not be able to attend the hearing and send this letter in place of attendance.

Sincerely yours,

HENRY D. WILLIAMS,
Chairman, Committee on Patents, Trade-Marks, and Copyrights,
New York County Lawyers Association.

AMERICAN BAR ASSOCIATION,
SECTION OF PATENTS, TRADE-MARKS, AND COPYRIGHT LAW,
October 13, 1942.

Re H. R. 7620.
Hon. CHARLES KRAMER,
Committee on Patents, House of Representatives, Washington, D. C.,

MY DEAR CONGRESSMAN KRAMER: Thanks for your letter of October 2 advising of hearing on the above bill.

I wish to express my personal views on the proposed legislation.

It is discriminatory because it does not apply to any contracts except patent royalty agreements. The total amount of payments under all royalty contracts is negligible compared with the total amount paid for goods and services. Hence, if there is overcharging a very great proportion must be in the form of excessive charges for other things than royalties since human nature is the same whatever is the subject of the contract. Furthermore, there is no one in the Governmen that has had any experience in setting royalty figures. It is very difficult to decide what is a fair royalty because the successful invention must carry the cost of the nine that failed before the problem was solved.

I am also opposed to the bill because I believe the Government can take care of overcharging by conferring with the parties involved and working out adjustments just as some branches of the Government are now doing. In my judgment we are making a serious mistake in passing laws to cure every problem that arises. Many of these laws run absolutely contrary to long established customs, such as freedom of contract, and in the long run custom will win and the law will lose. The law will consequenty be brought into disrespect just as in the bootleg era and we will be overwhelmed by confusion.

Very truly yours,

G. H. WILLITS.

SUPPLEMENTAL STATEMENT OF D. L. KREEGER, ON BEHALF OF ASSISTANT ATTORNEY GENERAL FRANCIS M. SHEA, RE H. R. 7620, A BILL TO PROVIDE FOR ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES, AND FOR OTHER PURPOSES

OCTOBER 19, 1942.

At the hearing concerning the above measure before the House Committee on Patents on October 15, 1942, representatives of the War Department proposed certain amendments to the bill, including the addition of the following provision as section 10:

"If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby."

This provision is patterned after the so-called "separability clause" which appears in most of the important statutes enacted by Congress during the past decade. The following 22 enactments contain a "separability clause" which is substantially the same as that proposed by the War Department, differing only slightly in form:

Federal Farm Mortgage Corporation Act (48 Stat. 344, sec. 17 (a)); National Industrial Recovery Act (48 Stat. 195, sec. 303); Federal Communications Act of 1934 (48 Stat. 1064, sec. 608); Railroad Retirement Act (48 Stat. 1283, sec. 14); Railroad Labor Act (44 Stat. 587, sec. 11); Railroad Retirement Act of 1935 (49 Stat. 967, sec. 12); Social Security Act (49 Stat. 620, sec. 1103); Public Utility Holding Company Act, 1935 (49 Stat. 806, sec. 32); Bituminous Coal Conservation Act of 1935 (49 Stat. 991, sec. 15); Bituminous Coal Act of 1937 (50 Stat. 72, sec. 13); Selective Training and Service Act of 1940 (54 Stat. 885, sec. 14 (b)); Alien Registration Act, 1940 (54 Stat. 670, sec. 40); Securities Act of 1933 (48 Stat. 74, sec. 26); Securities Exchange Act of 1934 (48 Stat. 881, sec. 33); National Labor Relations Act (49 Stat. 449, sec. 15); Federal Alcohol Control Act (49 Stat. 977, sec. 17 (9) (c)); Fair Labor Standards Act of 1938 (52 Stat. 1060, sec. 19); the Emergency Price Control Act of 1942 (Public No. 421, 77th Cong., sec. 303); the District of Columbia Emergency Rent Act (55 Stat. 788, sec. 12); Soldiers' and Sailors' Civil Relief Act of 1940 (54 Stat. 1178, sec. 603); Act Prohibiting Export of Arms to Belligerent Countries (49 Stat. 1081, sec. 8); Carrier Taxing Act (49 Stat. 974, sec. 13).

A "separability clause" such as is under consideration by this committee has been before the United States Supreme Court on numerous occasions, and has invariably been of value in sustaining the validity of legislation or of a divisible portion thereof. In several cases, an attack against the constitutionality of a statute, based upon the alleged invalidity of provisions not immediately involved in the suit, has proved to be unsuccessful because of a "separability clause" which would permit the bulk of the statute to stand even if the questioned provisions were held invalid. *Electric Bond & Share Co.* v. *Securities & Exchange Commission* (303 U. S. 419, 434 (1938)); *Ohio Tax Cases* (232 U. S. 576, 594 (1914)); *Steward Machine Co.* v. *Davis* (301 U. S. 548, 598 (1937)); *Crowell* v. *Benson* (285 U. S. 22, 62 (1932)); *Sonzinsky* v. *United States* (300 U. S. 506, 512 (1932)); *Highland Farms Dairy* v. *Agnew* (300 U. S. 608, 614 (1937)).

In other cases, where a portion of the statute was struck down as unconstitutional, the "separability clause" has saved the remainder. *Keller* v. *Potomac Electric Power Co.* (261 U. S. 428, 444 (1923)); see *Hill* v. *Wallace* (259 U. S. 44, 71 (1922)); *National Life Insurance Co.* v. *United States* (277 U. S. 508, 522 (1928)).

The "separability clause" is generally held to create a presumption of divisibility—a presumption which can only be overcome by a clear showing that the legislature would in all probability not have been satisfied with what remained after the invalid part was eliminated. *Williams* v. *Standard Oil Co.* (278 U. S. 235, 242 (1929)); *Utah Power & Light Co.* v. *Pfost* (286 U. S. 165, 184 (1932)); *Champlin Refining Co.* v. *Corporation Commission* (286 U. S. 210, 235 (1932)); *Carter* v. *Carter Coal Co.* (298 U. S. 238 (1936)).

Indeed, the omission of a separability declaration from a statute may, under the present state of the law, create a presumption that the legislation is intended to be indivisible, thus imperilling the entire statute by the possible

invalidity of a single provision or a single application. See Stern "Separability and Separation Clauses" (51 *Harv. L. Rev.* 76, 122 (1937)).

The value of a "separability clause" is obvious: It will aid to prevent the thwarting of congressional policy, and may help to sustain the act in its general application notwithstanding a limited invalidity as to certain persons or circumstances. The form of the clause proposed by the War Department follows the accepted pattern in more than 20 important statutes, and has been relied upon by the Supreme Court in numerous cases to sustain legislation.

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 2602

ADJUSTMENT OF ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

OCTOBER 22, 1942.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. LANHAM, from the Committee on Patents, submitted the following

REPORT

[To accompany S. 2794]

The Committee on Patents, to whom was referred the bill (S. 2794) to provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments are as follows:

On page 2, line 4, insert a period after the word "licensee", and, beginning with the word "and" in line 4, strike out the remainder of the sentence to and including the word "disposition" in line 10, and insert in lieu thereof the following sentence:

Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however*, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed, and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation.

On page 2, line 11, strike out "thereafter" and insert in lieu thereof the following words: "after the effective date of said notice".

On page 2, line 23, strike out "two" and insert in lieu thereof the following words: "upon receipt or five".

On page 2, line 23, change the period at the end thereof to a comma and add the following words: "whichever date is the earlier."

On page 4, line 15, strike out "redelegation" and insert in lieu thereof the word "delegation".

On page 4, line 16, after "such" insert the following words: "qualified and".

On page 5, line 11, strike out "this Act" and insert in lieu thereof the following words: "the notice provided for in section 1 hereof."

On page 5, line 16, strike out "this Act" and insert in lieu thereof the following words: "the notice provided for in section 1 hereof."

On page 5, line 21, insert after the word "of" at the end of the line the word "settling,".

On page 6, line 4, strike out the figure "1" in parentheses and insert in lieu thereof the small letter "l" in parentheses.

On page 6, line 11, strike out "its date" and insert in lieu thereof the following words: "the date of such agreement".

On page 6, line 18, strike out "found" at the end of the line.

On page 6, line 24, and continuing on page 7, line 1, strike out "and the applicability of such provision to other persons or circumstances".

EXPLANATION OF AMENDMENTS

The amendment on page 2, lines 4 to 10, is recommended by your committee in the belief (as brought out in the hearings on the companion bill H. R. 7620) that, following the receipt of written notice that existing rates or amounts of royalties are believed to be unreasonable or excessive and prior to an order of the head of the Government department or agency concerned fixing and specifying the rates or amounts of royalties which he shall determine are fair and just, the licensor, or the licensee or any other interested party, if he so desires, should, in all fairness, have an opportunity to be heard and to present in writing or in person any facts and circumstances which may, in his opinion, have a bearing upon the issue involved. The adoption of this amendment will afford the licensor or licensee or other interested party a reasonable opportunity to discuss with the department or agency of the Government concerned the amounts and rates of royalties before the issuance of any order fixing such amounts or rates, without danger of delaying or interfering with the war effort, which a formal hearing might entail.

The amendment recommended by your committee on page 2, line 11, is believed necessary to clarify the meaning of the language used, in view of the amendments recommended to be made in section 7, page 5, in lines 11 and 16, which are discussed below.

The amendments recommended by your committee on page 2, line 23 are believed necessary in view of the fact, especially in the light of wartime conditions, that mail addressed to more distant parts of the country, such as the Pacific coast, would require a greater length of time for delivery than the 2 days originally specified in the act as passed by the Senate. The notice would still be effective upon receipt if received by an addressee prior to the expiration of the 5-day period.

The amendments recommended by your committee on page 4, lines 15 and 16, are considered necessary, in view of developments before your committee in the hearings on the companion bill H. R. 7620, to insure that any delegation of authority by the head of the Government department or agency concerned will be made only to qualified and responsible individuals or boards.

The amendments recommended by your committee on page 5 in lines 11 and 16 are considered necessary to define more clearly the royalties to which the provisions of the act will be applicable. While all royalties remaining unpaid at the date of the passage of the act will be carefully scrutinized by the various interested Government departments and agencies, the proposed amendments will insure that the only royalties subject to reduction, if found excessive or unreasonable, are those based on goods to be delivered to the Government from and after the effective date of the notice provided for in section 1 of the act, and those royalties based on supplies already delivered to the Government which have not been paid to the licensor prior to the effective date of such notice.

The amendment recommended by your committee on page 5, line 21, is considered necessary to insure that the power and authority of the head of the Government department or agency concerned to enter into settlement agreements, conferred by section 3 of the act, shall continue undisturbed notwithstanding the termination of the war and the expiration of the 6 months' period thereafter.

The amendment recommended by your committee on page 6, in line 4 is to correct an obvious typographical error.

The amendment recommended by your committee on page 6, in line 11, is made for the purpose of clarifying, without changing, the meaning of the present language.

The amendment recommended by your committee on page 6, in line 18, is believed desirable, inasmuch as use of the word "found" might imply the necessity for a judicial or other finding.

The purpose of the amendment in line 24, page 6, and line 1, page 7, is to assure that the legal effect of section 10 will be that a finding of invalidity as to one provision of the act will not be effective as to any other provision of the act, while assuring that if one provision has been litigated and held invalid, the question of validity may not be relitigated as to other persons or circumstances.

PURPOSES OF THE ACT

The purposes of this measure are:

1. To eliminate the payment of excessive royalties by the Government to the owners of inventions on articles manufactured under licenses to Government contractors or subcontractors;

2. To authorize the head of any Government department concerned to determine the reasonableness of any royalties paid in connection with procurement during the war or the use of patented or unpatented inventions by producers of such articles for the Government;

3. To place the owners of inventions utilized by the Government in the war effort on an equal footing and to permit the Government to exercise its rights to utilize such inventions through the medium of any desired source of supply, without having to pay more than a fair and just compensation to the owners of such inventions;

4. To prescribe the legal remedy of owners of inventions with respect to disputed royalties for the licensed use of such inventions and to establish the procedure for the recovery by such owners of fair and just compensation;

5. To clarify the existing law; namely, the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), with respect to contractors and subcontractors utilizing inventions for the Government; and

6. To authorize the head of the Government department concerned to settle claims arising out of the use of inventions, whether patented or unpatented, for the Government.

This act was introduced at the request of the War Department and the Navy Department to reduce procurement costs resulting from royalties called for by licenses held by Government contractors and subcontractors in which the amounts and rates of royalties have become excessive, due to the unforeseeable increase in production growing out of wartime procurement.

Under the act of June 25, 1910, as amended, supra, the Government has the right to use any invention without license from the owner, and the owner's sole remedy is a suit against the Government in the Court of Claims for the recovery of his reasonable and entire compensation.

It has been the policy of the procuring agencies of the Government because of this law to use, if necessary, any patented or unpatented invention deemed essential in the progam. In many cases agreements for the payments of royalties are made in advance of such use; in other cases payments are made by way of settlement. In cases in which no license agreement exists between the owner of an invention and a Government contractor the United States can and does use all inventions necessary by the simple expedient of expropriation and infringement.

In cases where the owner of the patent has licensed a Government contractor to use the invention, the act of 1910 does not apply. The Government cannot avoid the payment of royalties fixed by such a license, even if unreasonable, because the contractor or subcontractor who uses the invention is legally liable under his license agreement to pay the agreed royalty.

The War and Navy Departments have pointed out to your committee that in great measure the owners of inventions have been most cooperative. They have agreed willingly to reduce royalties in cases where large production due to the war effort has made the returns to the owners out of proportion to the fair and reasonable value of the inventions. In many cases the inventions have been offered on a royalty-free basis. There are cases, however, where the owners have insisted upon receiving royalties which have become unreasonable and do not reflect fair and just compensation to the owners for the inventions. In such cases the Government is hampered in exercising its right to use the inventions upon payment of fair and just compensation because the licensees may be the only sources adequately provided with equipment and knowledge for making most expeditious and efficient use of the inventions.

The War and Navy Departments have cited certain cases which illustrate how patent costs may arise unreasonably in war procurement and the need for this legislation.

In one illustrative case, under existing royalty contracts between an inventor and aircraft companies manufacturing for the Government, the inventor will be entitled to receive approximately $1,750,000. The case is now under investigation by the Army Air Forces with a view to reducing the royalties. The owner of the invention is believed to be willing to negotiate for a reduction in royalties, but as yet such negotiations have not been concluded.

In another case, a company which controlled rolling mills for producing steel plate through patents has licensed various steel companies,

requiring the payment of royalties amounting to 5 percent of the cost of manufacture in these mills. Certain companies among the licensees have contracted with the Ordnance Department of the Army for steel plate for use in making cartridge cases. Their contract costs will include these royalties. The payment of some royalties to the patent owner is undoubtedly justified, but 5 percent appears excessive in view of increased production brought about by the war. The total amount will run into millions of dollars. The War Department is informed that use of the patented equipment will be necessary because unpatented equipment capable of producing the required plate is fully occupied with other production. It is not possible to turn to non-infringing equipment since all equipment must be utilized.

In this case the licensees refuse to deal with the Ordnance Department unless the Government agrees to underwrite the royalties or indemnify the licensees for refusal to pay the royalties. An attempt has been made to induce the owner of the patents to waive royalties on war production, but the owner has refused to do so.

In one pending cost-plus-a-fixed-fee contract, the estimated cost is approximately $5,000,000, one item of which is a 10 percent royalty of approximately $500,000. The fixed fee is slightly over $300,000. The contractor is bound by a license agreement to pay this royalty to a third party and will be liable if he produces the goods. The contractor has the facilities and knowledge to produce the desired equipment and is thus the logical source for it.

In another case, owners of an invention were paid about $20,000 a year in normal times. The owners have now licensed several Government contractors. These contractors are an important source of supply, yet under one contract the owners of the invention stand to receive well over $100,000. Other contracts of a similar size are expected to follow.

In another case several contractors are licensed to pay royalties on both patented and unpatented inventions. These contractors constitute a substantial portion of the entire available sources of supply. They cannot use the inventions without incurring liability for royalties and are thus not available as sources for obtaining the necessary equipment at fair and just compensation to the owners of the inventions because the royalties have become excessive.

In another case, a given piece of equipment could be produced for $65 a unit. The royalty was fixed by a pre-war license agreement at $25. This figure was reasonable before wartime production since the equipment cost about $400 a unit on small production schedules.

EFFECT OF THE ACT

The act will permit the War and Navy Departments to examine existing licenses of Government contractors and subcontractors engaged in war production. Whenever it appears that the amounts or rates of royalties are too great, the department concerned can give notice to the licensee and the licensor. An examination of the problem can then be made and the licensor or licensee, if either desires, may present written or oral statements of facts and circumstances which, in his opinion, bear on the rates and the amounts of royalties. Thereafter, an order can be entered making such adjustments as appear to be warranted by the facts. After the order, the licensee can pay no greater amount of royalties than specified in the

order. The order will apply to royalties unpaid at the time of the original notice whether or not delivery of the equipment embodying the invention has taken place.

The act will have the effect of preventing the collection of royalties by a licensor from the licensee under a royalty contract in amounts greater than those determined to be fair and just by the Government agency concerned. The licensor has an action against the Government for such sum, if any, as he may be entitled to, in addition to the amount already paid, as would make the total constitute fair and just compensation. This is all he could recover in cases of unlicensed use of an invention.

The provisions of the act fulfill the requirements of the fifth amendment to the Constitution.

The Government is protected in suits against it in its ability to avail itself of defenses that might be raised in an action for infringement. This is desirable and proper, because the Government did not take part in negotiating the royalty agreements and in determining the royalties. The Government is merely utilizing inventions at fair and just compensation to the owners as it is entitled to do under existing law, and it is permitted under this act to use all sources of supply.

The act provides for settlement of claims by the procurement authority until suit has been filed against the United States. Thereafter settlement under existing law may be made by the proper authorities. It is believed important in the interests of the owner of the invention, as well as the Government, to authorize settlement of claims arising under the act by procurement authority. Suits against the Government will be thus avoided and money rightfully due to the owners of inventions will be paid without court delays.

The act provides that the Government will obtain credit or recoupment for all reductions in royalty rates and amounts. The contractor or subcontractor does not obtain the benefit of royalty reductions but must pass the saving on to the Government.

SUMMARY

During the hearings your committee heard in public session not only the testimony of representatives of the War and Navy Departments, the Department of Justice, and the Department of Commerce (U. S. Patent Office), but also that of representatives of the National Association of Manufacturers, the patent section of the American Bar Association, the American Patent Law Association, and others. Statements were submitted by many others, a number of which are incorporated in the record. It appears from the testimony and statements that the act as amended is necessary and desirable for the successful and efficient prosecution of the war and is agreeable in principle to and protects the interests of all concerned.

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Reprint from CONGRESSIONAL RECORD IN SENATE—Vol. 88, No. 178, Pages 8482 to 8484, inc., Thursday, October 15, 1942.

[Page 8482]

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS

Mr. Pepper. Mr. President, a parliamentary inquiry.

The Presiding Officer (Mr. Overton in the chair). The Senator will state it.

Mr. Pepper. Is there a bill now pending before the Senate?

The Presiding Officer. Nothing is before the Senate at this time, the unfinished business having been temporarily laid aside by unanimous consent.

Mr. Pepper. I move that the Senate proceed to the consideration of Calendar No. 1693, Senate bill 2794, a bill reported to the Senate by the Committee on Patents. This is a measure recommended by the War Department as an urgent matter. I should like to give a word of explanation of my reasons for making the motion.

Mr. McNary. Will the Senator yield?

Mr. Pepper. I yield.

Mr. McNary. The Senator is making a motion?

Mr. Pepper. I have made a motion.

Mr. McNary. I think it would be better if the Senator would ask unanimous consent; otherwise he would displace the unfinished business.

Mr. Pepper. The point the Senator raises was what led me to ask whether any bill was pending. In view of the situation, I ask unanimous consent that the unfinished business be temporarily laid aside and that the Senate consider Calendar 1693, Senate bill 2794.

Mr. McNary. I make no objection at this time. Let the Senator make his statement, at the conclusion of which I shall be better able to determine whether I shall make objection.

The Presiding Officer. The clerk will state the bill by title for the information of the Senate.

The Chief Clerk. A bill (S. 2794) to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes.

Mr. Pepper. Mr. President, the War Department brought this matter to the attention of the Committee on Patents, and urged all reasonable and possible dispatch by the Congress in the disposition of the bill.

The proposal grows out of a situation in which the licensor of a patent has granted the use of the patent to a licensee upon a fixed royalty basis. The royalty might have been quite appropriate for ordinary peacetime purposes and for the number of uses that might have been made of the license by the licensee. However, since the beginning of the war, there have developed many instances of the Government having a contract with a licensee requiring the manufacture, for example, of possibly millions of units of the article which happened to be the subject of the license, and the payments under the royalty schedule, which might have been made the subject of a private contract between the licensor and the licensee, amounted to an excessive charge against the Government.

In other words, in such instances when the Government finds that the license fee being paid by the licensee to the licensor of a patent respecting an article being manufactured for or used by the Government, or at the Government's direction, in time of war, is excessive, the measure is designed to permit the Government to *reduce the amount of royalty*, and thereafter relieve the licensee of his contract to pay a higher royalty than that which may be directed and approved by the governmental agency. That is the essence of the bill.

Representatives of the War Department and the Navy Department appeared personally before the Committee on Patents, the committee considered the matter, and recommended to the Senate the passage of the bill.

I now see in the Chamber the able Senator from Connecticut [Mr. Danaher], who is a member of the Committee on Patents, and who has given a great deal of time and attention to the subject now before us. I think it

would be desirable for him to make a statement to the Senate about the bill.

Mr. Danaher. Mr. President, I understand that a companion bill to the one being discussed is now before the Committee on Patents of the House of Representatives. Is that not so?

Mr. Pepper. I think that is correct.

Mr. Danaher. Does the Senator from Florida know whether or not hearings have been held on the House bill?

Mr. Pepper. I do not recall whether any hearings have been held on the House bill. It was thought that final consideration of the subject would be expedited if the Senate found itself justified in acting on it, so that the House would have the benefit of the Senate's action.

Mr. Danaher. As the Senator from Florida knows, I am in complete sympathy with the objectives of the bill, but I am led to believe that the House bill differs in several important particulars from the measure now before the Senate.

Substantial criticism has been expressed to me of our failure to provide in section 2 of the measure concurrent jurisdiction for the United States district courts to entertain suits in behalf of a licensor, at least to the extent to which jurisdiction is now conferred under the Tucker Act on the district courts, concurrently with the Court of Claims, in actions against the United States. I do not know that such a provision is necessary. I do know that the committee has discussed at some length the question whether or not it would recommend the inclusion of that particular thought.

However, since the House bill, as I am informed, is at serious variance with the Senate version in several particulars, it might be well to save the point, as it is obvious that a conference will be necessary in any event. Even

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though we pass the measure and let it go to the House in the form of the Senate bill, in which event, of course, the House will be at liberty to strike out all after the enacting clause and substitute the House bill, it seems to me

that we might save the point were we now to interpolate an amendment which would meet so much of the point with reference to concurrent jurisdiction as I have previously referred to.

Mr. Pepper. I think it would be highly desirable if the able Senator from Connecticut would offer the amendment to which he has referred, and I am sure it would meet with the approval of both the committee and the Senate.

Mr. Danaher. It well may be, let me say to the Senator from Florida, that if the House shares the feeling entertained by the committee hitherto, we can easily eliminate the provision, whereas if the House persists in what I understand to be its feeling on the point, we can retain it and still do no violence to the general purposes, objectives, and attainments of the bill.

Mr. President, with these thoughts I would respectfully move to amend—

Mr. Pepper. Consent has not yet been given to consider the bill.

Mr. Danaher. I beg the Senator's pardon. I understood that consent had been granted.

The Presiding Officer. Is there objection to the present consideration of Senate bill 2794?

Mr. McNary. Mr. President, in view of what has been stated, I have no objection. I have conferred with Senators, and have discussed the matter particularly with the able Senator from Connecticut, who is a member of the committee. In view of the general concurrence, I have no objection.

The Presiding Officer. Is there objection to the request of the Senator from Florida?

There being no objection, the Senate proceeded to consider the bill (S. 2794) to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, which had been reported from the Committee on Patents with amendments.

The Presiding Officer. The clerk will state the amendments of the committee.

The first amendment of the committee was, in section 1, on page 1, line 3, after the word "That," to insert a

comma and the words "to aid in the successful prosecution of the war"; on line 4, after the word "invention," to strike out "described in and covered by a patent, or an application for a patent, of the United States," and to insert "whether patented or unpatented," so as to make the section read:

That, to aid in the successful prosecution of the war, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States, a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the

last known address of the licensor and licensee and shall be effective 2 days after the mailing thereof.

The amendments were agreed to.

The next amendment was, in section 3, page 3, line 17, before the word "disposition", to strike out "or" and to insert "other"; on the same line, after the word "invention", to strike out "described in and covered by a patent or an application for a patent", and to insert "whether patented or unpatented, and", so as to make the section read:

Sec. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

The amendments were agreed to.

The next amendment was, in section 4, on page 4, line 10, after the word "paid", to strike out "by the Government" and to insert "directly or indirectly"; and on line 12, after the word "refund", to strike out "to the Government"; and on the same line, after the word "paid", to strike out "by it", so as to make the section read:

Sec. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a

corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

The amendments were agreed to.

The next amendment was, on page 4, after line 13, to strike out section 5, section 6, and a part of section 7, as follows:

Sec. 5. The authority and discretion conferred by this act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency, and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

Sec. 6. For the purposes of this act and the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the manufacture, use, sale, or other disposition of an invention described in and covered by a United States patent or in an application for patent therefor, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or disposition for the United States.

Sec. 7. This act shall apply to all royalties, directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or materials deliverable to the Government from and after the date of the approval hereof.

And to insert:

Sec. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the redelegation of any power and authority conferred by this act to such responsible officers, boards, agents, or persons as he may designate or appoint.

Sec. 6. For the purposes of this act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

Sec. 7. This act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this act. This act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this act.

The amendment was agreed to.

The next amendment was, in section 7, page 6, line 19, after the word "termination", to strike out the word "hereof" and insert the word "thereof", so as to read:

Sections 1 and 2 of this act shall remain in force only during the continuance of the present war and for 6 months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

The amendment was agreed to.

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The next amendment was, in section 8, on page 7, line 6, after the words "licensee of", to strike out "a patent or patent application covering"; and on page 7, line 7, after the word "invention", to insert "whether patented or unpatented", so as to make the section read:

Sec. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this act. The provisions of section 10 (1) of an act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

The amendments were agreed to.

The next amendment was, on page 7, after line 14, to insert a new section, as follows:

Sec. 9. Nothing herein contained shall be deemed to preclude the applicability of section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be found applicable.

The amendment was agreed to.

The next amendment was, on page 7, after line 19, to insert a new section as follows:

Sec. 10. If any provision of this act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this act shall be inoperative by its terms, the validity or applicability of the remainder of the act, and the

applicability of such provision to other persons or circumstances shall not be affected thereby.

The amendment was agreed to.

The Presiding Officer. That completes the committee amendments. The bill is open to further amendment.

Mr. Danaher. Mr. President, I offer an amendment on page 3, in line 5, after the word "Claims" to insert a comma and the words: "or in the district courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims,".

Mr. Pepper. Mr. President, I thoroughly concur in the amendment the able Senator from Connecticut has offered. It merely gives the district courts concurrent jurisdiction with the Court of Claims in these cases. I think the amendment would be helpful in working out this matter with the House.

The Presiding Officer. The question is on agreeing to the amendment offered by the Senator from Connecticut [Mr. Danaher].

The amendment was agreed to.

The Presiding Officer. The bill is open to further amendment. If there be no further amendments, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading, read a third time, and passed.

The title was amended so as to read: "A bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes."

5 *Reprint from* CONGRESSIONAL RECORD, HOUSE—Vol. 88, No. 184, Pages 8823 to 8825, Thursday, October 22, 1942.

[Page 8823]

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

Mr. Lanham. Mr. Speaker, I ask unanimous consent for the present consideration of the bill (S. 2794) to provide for adjusting royalties for the use of inventions for

the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

The Clerk read the title of the bill.

The Speaker. Is there objection to the request of the gentleman from Texas?

Mr. Plumley. Reserving the right to object, Mr. Speaker, and I shall not object, I understand that the gentleman will undertake to explain the bill.

Mr. Lanham. I shall be glad to make an explanation of the measure, because I think it should be made.

This bill has passed the Senate. It is to provide for adjusting royalty rates for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

The Committee on Patents of the House of Representatives has held hearings for 3 days on this matter.

There has been no objection whatever from any source with reference to the purposes of this measure. Certain modifying amendments were recommended, and through conferences among those who own patents and who represent those who own patents with the representatives of the War Department and the Navy Department, their differences on these amendments have all been settled and their views are incorporated in the measure as now reported, with the committee amendments suggested by the Committee on Patents.

The War Department, the Navy Department, the War Production Board, and the various other agencies of the Government supplying materials for our war effort are vitally interested in the prompt passage of this measure. The prompt passage of it will mean a saving of a great deal of money for the United States. It is important that the measure be passed, and be passed promptly.

The purpose of the measure is this: Under our patents system, those who hold patents are authorized to let people manufacture on royalties the articles covered by the patents or to license their rights of manufacture to someone else upon an agreed rate of royalty. With the magnified and multiplied production in our war effort, the rate of the normal royalty would often mean ex-

cessive and unfair and unreasonable profits to individuals at the expense of our boys who are carrying on on the land and on the sea and in the air.

It is contemplated that in practically all cases these settlements and agreements will be voluntarily made without any difficulty; but there are likely to be some cases—indeed, there are a few of which we know very vital to our war effort in which licensees under patents are claiming very excessive royalties that should not be paid and that are unconscionable.

The purpose of this measure is simply to give a hearing to those who may be owners of patents or licensees of patents, and to agree with the authorities upon a proper rate of royalty for the duration of the war. When that rate has been established, if there is any disagreement, the party considering himself injured has the authority to go either to the Court of Claims on appeal or to the Federal district court where he may reside or where jurisdiction properly pertains.

Broadly speaking, that is the purpose of this bill. I shall be glad to answer any questions that may be asked with reference to it. The gentleman from New Jersey [Mr. Wolverton] has been most cooperative and was at the meeting this morning at which we discussed these amendments.

Mr. Wolverton of New Jersey. Mr. Speaker, will the gentleman yield?

Mr. Lanham. I yield to the gentleman from New Jersey.

Mr. Wolverton of New Jersey. As a member of the Committee on Patents, although not the ranking Republican member, I have no hesitancy whatever in stating to the House that I see no objecton to the granting of the

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consent request that has been made by the gentleman from Texas [Mr. Lanham]. This bill had full hearings. The interested parties appeared from both the Army and the Navy and from industry in general. Some differences arose as to the interpretation to be placed upon certain

language used in the bill. Subsequent to the conclusion of the hearings, representatives of the Army, the Navy, and industry met together and ironed out those differences, so that the bill for whose consideration the gentleman has asked unanimous consent incorporates the amendments that were agreed upon by all of the interested parties.

This is a bill the importance of which no one will question. No one I know of has any objection to the objective of the bill. The evidence presented to the committee indicated the necessity of immediate action. The enactment of the bill will prove helpful and beneficial in our war effort.

I hope that the membership of the House will not be unwilling to grant the request made by the gentleman from Texas [Mr. Lanham]; and that the bill may have the speedy and full approval of the House.

Mr. Lanham. I thank my distinguished friend from New Jersey.

The Speaker: Is there objection to the request of the gentleman from Texas?

There was no objection.

The Clerk read as follows:

Be it enacted, etc., That, to aid in the successful prosecution of the war, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall de-

termine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective two days after the mailing thereof.

Sec. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the district courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise.

Sec. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, wheth-

er patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

Sec. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

Sec. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the re-delegation of any power and authority conferred by this act to such responsible officers, boards, agents, or persons as he may designate or appoint.

Sec. 6. For the purposes of this act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by

a contractor, a subcontractor, or any person, firm or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

Sec. 7. This act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this act. This act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this act. Sections 1 and 2 of this act shall remain in force only during the continuance of the present war and for 6 months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

Sec. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this act. The provisions of section 10 (1) of an act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

Sec. 9. Nothing herein contained shall be deemed

to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be found applicable.

Sec. 10. If any provision of this act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this act shall be inoperative by its terms, the validity or applicability of the remainder of the act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

With the following Committee amendments:

Page 2, line 4, after the word "license", insert a period and strike out the remainder of the line and down to and including the word "disposition" in line 10, and insert "Within a reasonable time after the effective date of said notice, in no event less than 10 days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he so requests within 10 days from and after the effective date of said notice, may within 30 days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation."

Page 2, line 11, after the word "not", strike out the word "thereafter" and insert "after the effective date of said notice."

Page 2, line 23, strike out the word "two" and insert "upon receipt or five."

Page 2, line 23, after the word "thereof", strike out the period, insert a comma, and add the words "whichever date is the earlier."

Page 4, line 15, strike out the word "re-delegation" and insert "delegation."

Page 4, line 16, after the word "such", insert "qualified and."

Page 5, line 11, after the word "of", strike out the words "this act" and insert "the notice provided for in section 1 hereof."

Page 5, line 16, after the word "of", strike out the words "this act" and insert "the notice provided for in section 1 hereof."

Page 5, line 21, after the word "of", insert the word "settling,".

Page 6, line 4, strike out "(1)" and insert "(ell)."

[Page 8825]

Page 6, line 11, after the word "of", strike out the words "its date" and insert "the date of such agreement."

Page 6, line 24, after the word "Act", strike out the words "and the applicability of such provision to other persons or circumstances."

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IN THE

Supreme Court of the United States

October Term, 1944.

No. [redacted] 11

ALMA MOTOR COMPANY, *Petitioner*,

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*,
UNITED STATES OF AMERICA, *Intervenor*.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

PETITIONER'S REPLY BRIEF.

I. JOSEPH FARLEY,
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PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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IN THE

Supreme Court of the United States

October Term, 1944.

No. 806.

ALMA MOTOR COMPANY, *Petitioner*,

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*,
UNITED STATES OF AMERICA, *Intervenor*.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

PETITIONER'S REPLY BRIEF.

REPLY ARGUMENT.

I.

THE FALLACY OF THE THEORY OF A NEW INDEPENDENT LICENSE.

The Government brief bottoms its argument on the Royalty Adjustment Act being a proper exercise of the right of eminent domain upon the cases of *Crozier* v. *Krupp*, 224 U. S. 290 and *Richmond Screw Anchor Company* v. *United States*, 275 U. S. 331. It states "The Royalty Adjustment Act in effect authorizes the taking of a new license under patented inventions" and "This Act is clearly as valid as its prototype, the 1910 Act as amended" (Br. p. 10).

A. The Taking of a New License is Not Supported by 1910 Act or the Cases Thereunder.

We have already discussed in our main brief (pp. 37, 53, 55-56, 65, 69-70) the vast difference between the Act of 1910, as amended, and Public Law 768. By its express terms it deals solely with Governmental use "*without license.*" Although *Crozier* v. *Krupp* held the Act of 1910 to be "the acquiring by the Government under the right of eminent domain, as the result of the statute of 1910, of a license to use the patented inventions in question," this Court in *William Cramp & Sons Ship & Engine Building Company* v. *International Curtis Marine Turbine Company, et al.*, 246 U. S. 28, specifically overruled the theory of an automatic appropriation by the United States of a license in the following language:

> "Thus it is true to say that under both views the theory of universal and automatic appropriation by the United States of a license to use all patent rights is unsupported, since both views assume that official authority would not be wilfully exerted so as to violate the Constitution, and this although it be that the Act of 1910 embraces the exceptional case where, because of some essential governmental exigency or public necessity, the authority of the United States is exerted to take patent rights under eminent domain in reliance upon the provision to recover the adequate compensation which the Act of 1910 affords. And this fundamental characteristic at once exposes the want of foundation for the contention that because the statute made provision for giving effect to acts of official power in taking patent rights under the conditions stated and even when necessary of curing defects in the exertion of such power, therefore it is to be assumed that the statute conferred upon all who contracted with the United States for the performance of work a right to disregard and take without compensation the property of patentees." 246 U. S. 28 at 42.

* * * * * * * * *

"A contractor with the United States, therefore, is in the very nature of things bound to discharge the obligation of his contract without violating the rights of others, and merely because he contracts with the United States is not vested with the power to take the property of others upon the assumption that as a result of the contract with the United States he enjoys the right to exercise public and governmental powers possessed by the United States.

"*Nor is there any foundation for the assumption that the ruling in Crozier* v. *Krupp*, 224 U. S. 290, *is in conflict with these self-evident propositions and by necessary implication sanctions the theory of universal license in favor of the United States as to all patent rights and the asserted resulting authority in contractors with the United States for the purpose of the execution of their contracts to disregard and appropriate all such rights.*" 246 U. S. 28 at 43. (Emphasis ours.)

Chief Justice White, who wrote the opinion in the *Cramp* v. *Curtis* case, pointed out in detail that the purpose of the Act of 1910 "was not to weaken rights of patentees but to further secure them" and that to claim a construction for the Act that *it would universally and automatically grant a license* would be *in direct conflict* with the provision of a statute "*avowedly intended for the further securing and protecting of such patent rights.*" (246 U. S. 28 at 37, 38.)

We do not lose sight of the fact that as a result of this Court's decision in the *Cramp* case the 1918 amendment to the Act of 1910 was adopted. We direct attention, however, to the fact that in the *Richmond Screw Anchor* case, *supra*, this Court, speaking by Chief Justice Taft, held:

"This Court held, March 4, 1918, in *Cramp & Sons* v. *International Curtis Marine Turbine Company*, 246 U. S. 28, 42, 45, that the Act of 1910 *did not effect a license to the United States* or the contractor, making the patented device, to make or use the invention, and that the contractor could be sued for an injunction and for infringement in spite of the operation of that Act." 275 U. S. 331 at 342. (Emphasis ours.)

Therefore the cases upon which the Government places such heavy reliance in its contention that Public Law 768 effects the taking of a new license by the Government do not support the contention, in view of the direct reference with approval by this Court in the *Richmond* case of its decision in the *Cramp* case and in view of the fact that the *Cramp* case overruled the license theory of *Crozier* v. *Krupp*.

B. Royalty Order W-3 Vitiates the New License Theory.

The argument that what the Government takes under the Royalty Adjustment Act is a new license is a most unsubstantial one. If the Government were taking a new license, independent of the consensual one the existence of the latter would have no bearing on the situation. But the fact is that the amount of money which the Government takes, and has ordered to be taken, from petitioner is not based upon any suppositious new license, but is the precise and exact amount provided for by the existing license contract between petitioner Alma and respondent Timken. Is it not the height of absurdity to urge that in the instant case the Government takes a new license when the Government's position is that petitioner's patent is invalid and that petitioner is not entitled to receive any royalty at all? How can this possibly be construed as the taking of a license? The Royalty Adjustment Order in this case holds that as far as the Government is concerned petitioner's patent is a nullity, not only from the date when the Royalty Adjustment Order was issued, but all the way back to September, 1939, when the patent was issued and under which all of the unpaid royalties, which the District Court held should have been paid, were accrued. If then the patent is a complete nullity insofar as the Government is concerned how can it be said that the Government takes for itself a new license under a patent which, in spite of the fact that the patent was issued by the Government, it now treats as a non-existent right and one that in fact never did exist?

C. The Very Language of the Act Demonstrates the Fallacy of the New License Theory.

The fallacy of the Government's argument concerning the taking of a new license independent of the consensual license held by the contractor is further amply demonstrated by the terminology employed throughout the entire Royalty Adjustment Act.

Section 1 of the Act provides:

> "* * * whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, *with license from the owner thereof* * * * and *such license* includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered *such* manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee.
>
> "Within a reasonable time * * * the head of the department * * * shall * * * fix and specify such rates or amounts of royalties * * * as he shall determine are fair and just * * * and shall authorize the payment thereof *by the licensee to the licensor* on account of such manufacture, use, sale, or disposition: * * *" (R. 56.)

The license specifically dealt with in the foregoing quoted portions of the Act is shown, by those parts we have italicized, to be not an independent license but a license between the owner of a patent and the contractor. The manufacture, use and sale referred to in the Act is expressly stated to be the license to manufacture, use and sell covered by the existing license between the owner and the contractor. All of the provisions in the Act for the payment of royalties relate to *such* licensed manufacture. They do not deal at all with royalties to be paid by the Government under a hypothetical new independent license but the royalties to be paid, in the express language of the Act, "by the licensee to the

licensor'' and these payments are furthermore expressly stated to be ''on account of such manufacture, use, sale, or other disposition''; in other words, the manufacture, use, sale or other disposition under the existing license agreement.

Section 1 of the Act also expressly forbids *the licensee* after the effective date of the notice *to pay to the licensor* a royalty in excess of that specified in an order to be issued. This prohibition by its terms therefore operates directly upon the consensual license agreement.

Section 1 of the Act also provides that

> ''* * * The licensor shall not have any remedy * * * against the licensee for the payment of any additional royalties remaining unpaid, or for damages or breach of contract or otherwise, but said licensor's sole and exclusive remedy except as to the recovery of royalties fixed in said order, shall be as provided in the Section 2 hereof.''

The Act therefore expressly recognizes and provides, that as to all royalties to be specified and to be paid in accordance with the Royalty Adjustment Order to be issued, the licensor's remedy is against the licensee under the consensual license and not under any alleged new or independent license which is taken or to be taken by the Government.

Section 2 of the Act specifically recognizes that the royalties to be paid to the licensor pursuant to any order issued under the Act are royalties ''under a license issued by him'' (the licensor). Obviously the license referred to in Section 2 of the Act is the consensual license, not any imaginary or hypothetical independent license.

The very title of the Act itself shows that it was never intended to cover or provide for the taking of an independent license as contended by the Government for it is expressly stated to be ''An Act To provide for adjusting royalties.'' The only royalties that could be *adjusted* are royalties already in existence, in other words, those set forth in the consensual license agreement.

D. The Very Terms of Order No. W-3 Belies the New License Theory.

If any more were needed it is to be found in the express provisions of Royalty Adjustment Order No. W-3 issued in this case. Numbered paragraph (1) of the Order provides for the payment of royalties

> "by licensor to licensee pursuant to the licenses specified in column 6 of said Schedule A".

The only license referred to in column 6 of Schedule A of the order is the consensual license agreement which is particularly identified as the one entered into on "May 16, 1938". This is the license between Alma and Timken and not any hypothetical license between Alma and the Government.

The same is likewise true with numbered paragraph (2) of the Order as it authorizes the

> "licensee * * * to pay to licensor * * * ."

Here again this is under the license between Alma and Timken and not any imaginary license between Alma and the Government.

Numbered paragraph (3) of the Order contains the following express direction:

> "(3) that licensee is hereby directed forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under the licenses referred to in paragraph 2 hereof * * * ".

The only license that the foregoing language can refer to is the consensual license between Alma and Timken and not any new imaginary license with the Government.

From the foregoing it is, we submit, abundantly clear that the Royalty Adjustment Act and Royalty Adjustment Order W-3 issued thereunder in the instant case relate entirely (1) to the existing consensual license and not to any

imaginary new or independent one, (2) that the Act is primarily directed to having the Government step directly into the shoes of the licensor under the existing private contract, and (3) that the only thing provided for by the Act which is to be taken by the Government is either a portion of the money due under the contract from the licensee to the licensor, or, as in the instant case, all of the money which petitioner is entitled to receive under its existing license contract not only for the future but also as to the greater amount that was due and owing to petitioner by Timken prior to the enactment of the Royalty Adjustment Act and to Order W-3 issued thereunder. The entire argument of the Government about an "independent" new license which is allegedly provided for by the Royalty Adjustment Act therefore falls by its own weight, because all of the major provisions of the Act depend, and are predicated, upon the existence of the consensual license.

II.

THE ROYALTY ADJUSTMENT ACT IS NOT A PROPER EXERCISE OF THE FEDERAL POWER OF EMINENT DOMAIN.

A. Money is Not a Species of Property that May be Taken Under Eminent Domain.

The Government's brief (p. 24) makes the statement that "eminent domain enables the United States to appropriate *any* private property for its use in its constitutional activities," citing *Kohl* v. *United States*, 91 U. S. 367 and *Albert Hanson Lumber Co., Limited* v. *United States*, 261 U. S. 581 in support thereof. Neither of these cases support such a bald, broad, general statement. Both of the cases cited had to do with the condemnation of land clearly intended for a public use, the Kohl case relating to the condemnation of land for use in constructing a postoffice in Cincinnati and the Hanson case to the condemnation of land to be used for the construction of a canal in the State

of Louisiana. Although we agree entirely with the Government's statement that patents are species of property, we are not concerned here with the taking of a patent, but with the taking of money due from one private person to another under a private contract.

The only "taking" the Act provides for is *the taking of money*. And there is no provision in the Act, nor the slightest intimation in the brief, that *the money* so taken is to be used for any public purpose. This infirmity of the Act is not, we submit, in the slightest degree, cured by the opening words of the Act that it is "to aid in the successful prosecution of the war".

The argument that the structures (Br. p. 30) to which the royalty applies are put to governmental or public use merely emphasizes rather than cures the infirmity. The action here does not involve the physical structures,—the *transfer cases*, but merely the money due petitioner by Timken as royalty for Timken's use of the patented invention, and as a result of which use Timken has made, and now retains money, earned by it as profits which it would not and could not have made, except by the use of the invention.

Nowhere in the Government brief do we find any answer to the contentions in our main brief that there is no proper precedent for the taking of mere money, nor the citation of any precedent to support the direct taking in this case of money by the Government under eminent domain.

B. The Act Does Not Provide for Just Compensation Within the Meaning of the Fifth Amendment.

Under the heading "Just Compensation", the Government brief (p. 26) charges we misconceive "the subject matter taken under the Act," and it states

> "Neither the pre-existing license nor the royalties due thereunder are taken; a new license is instead condemned and it is the monetary 'equivalent' of this new license which the Act authorizes * * * " (p. 28).

We have amply demonstrated the utter fallaciousness of this new license theory (*supra*, pp. 5-11). Our interpretation of the Act in this respect, which the brief characterizes as a misconception, agrees with that of the Court below which the brief calls a "slight error." (Footnote 23, p. 35) *Jacobs* v. *United States*, 290 U. S. 13, which the Government brief (p. 26) cites, supports petitioner's contention that "just compensation" within the meaning of the Fifth Amendment does not mean inadequate compensation, but entire compensation, and that it means the value of the property at the time the property is taken. The argument is made that if petitioner's entire compensation were paid to it, namely, the exact royalties stipulated in the license agreement, it would nullify the entire Act. We answer this by stating that if the rule of just compensation under the Fifth Amendment is to be interpreted as this Court in the long series of decisions extending for more than sixty years has interpreted it, the Act should be declared a nullity. (See Brief of Amici Curiae, pp. 10-23.)

We submit nothing could be more conclusive on this point than the 1910 Act as amended, *Crozier* v. *Krupp* and the *Richmond Screw Anchor case* all of which clearly and completely, as stated in the Government brief (p. 29),

> "recognized that a patent owner's right to 'reasonable and entire compensation' for Governmental use of his invention meets constitutional requirements."

Nothing short of "entire compensation", or a full and perfect equivalent, can suffice.

C. The Property is Not Taken for Public Use.

Under this heading, the Government brief (p. 30) again returns to *Crozier* v. *Krupp*, *supra*, and *Richmond Screw Anchor* v. *United States*, *supra*, and argues that because the *physical structures involved* in the license contract are used for public purposes the taking provided for by the Royalty Adjustment Act is, therefore, a taking for public use. It temporarily abandons and thereby tacitly admits

the weakness of its "new license" theory. The Government admittedly has not taken any of the physical structures, i.e., transfer cases, from petitioner. That which it has taken from petitioner and about which petitioner complains is the money rightfully due and already held by a judgment of a Federal Court to be due it by respondent Timken as well as the constitutional right denied to petitioner to a hearing on the merits of its appeal.*

III.

THE RETROACTIVE PROVISIONS OF THE ACT AS APPLIED IN THIS CASE RENDER THE ACT INVALID.

Although mere retroactivity alone is not sufficient to condemn a statute as unconstitutional, if the retroactivity affects vested property rights, the statute cannot be constitutional under the prohibition of the Fifth Amendment against the deprivation of property without due process of law.

Under the sub-heading "The act may apply to uses under a pre-existing license agreement" (p. 34), the Government's brief again premises the argument on the fiction of the appropriation of a new license. Although the proponents of the Act urged in hearings that the existing license was not the property that it was intended to take under the Act, nevertheless, the Act cannot be divorced entirely from the existing license as we have shown (*supra*, pp. 5-6). The Royalty Adjustment Act is not by any logical construction a mere "frustration of a pre-existing contract by condemnation of its subject matter" (Br. p. 36). The only thing that can be condemned or taken by the operation of the Act by its very terms is the money due under the existing license contract and no amount of pseudo dialetics can alter the plain unvarnished facts.

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* That there can be no public interest in the monies taken from petitioner because none of the royalties involved were charged to the United States and therefore there can not possibly be a taking for public use (see *infra*, pp. 27-32).

Omnia v. *United States*, 261 U. S. 502, upon which the Government brief so heavily relies (p. 36) is demonstrably not controlling in the present situation. That it is not controlling is clearly exemplified by the fact that in the *Omnia* case this Court definitely held that the claimant's contract was not expropriated. The facts in *Brooks-Scanlon Corp.* v. *United States*, 265 U. S. 106, are much more pertinent to those in the instant case than the facts in the *Omnia* case, as clearly pointed out by this Court in the Brooks-Scanlon case as follows:

> "Omnia Commercial Co. v. United States, 261 U. S. 502, 67 L. ed. 773, 43 Sup. Ct. Rep. 437, does not support the contention that claimant's contract was not expropriated. There, claimant had a contract giving it an opportunity to purchase a large quantity of steel plate from a steel company at a price under the market. If the contract had been carried out, large profits would have resulted. Before any deliveries were made, the United States requisitioned the steel company's entire production of steel plate. No specific steel plate had been appropriated to the contract, and no part of the purchase price had been paid. The action taken by the United States applied to the steel company only, and created no relations with the claimant. The contract was not kept alive nor resorted to in order to determine anything involved in the transaction between the United States and the steel company; the benefit of the low prices was not taken; no payments made on account of the purchase price were taken; nothing belonging to the Omnia Company was taken. Damages claimed were held too remote. The differences between that case and this are essential and obvious." *Brooks-Scanlon Corp.* v. *United States*, 265 U. S. 106 at 120, 121.

The Government's brief in the footnote 24 (p. 36) attempts to destroy the effect of the Brooks-Scanlon decision by referring to the fact that the Omnia case was recently cited with approval in *United States* v. *Powelson*, 319 U. S. 266, and in *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, and asserts that the citations of the *Omnia*

case in these cases should "dispel any notion that the *Omnia* decision had been weakened" by the *Brooks-Scanlon case.* The reliance placed upon the *Brooks-Scanlon case* by the *amici curiae* brief filed herein is not based upon the premise that the *Brooks-Scanlon case* weakens the *Omnia case,* but upon the sound contention that the facts in the *Brooks-Scanlon case* more closely parallel the facts in the instant case than do the facts in the *Omnia case.* As distinctly pointed out in this Court's above quoted discussion of the *Omnia case,* no specific steel plate had been appropriated by the Government to the contract in the *Omnia case* and "the action taken by the United States applied to the steel company only, and created no relations with the claimant". Here, the operation of Public Law 768 and Royalty Adjustment Order No. W-3 instead of creating "no relations between the United States and the claimant" as in the *Omnia case,* does exactly the same thing as was done in the *Brooks-Scanlon case;* the definite creation not only of direct relations between the Government and Alma, the claimant here, but the complete substitution of the Government for Alma as the recipient and beneficiary of every penny's worth of royalty past, present or future provided for by the consensual contract.*

It is argued under the heading "The Act may apply to uses occurring prior to its passage" (Br. p. 37) that "performance of the license contract was frustrated by the Government's appropriation of an independent license." We have shown that the theory of an appropriation of an independent license is entirely fallacious. It is not only equally fallacious to state that performance was frustrated by the Government's so-called appropriation of an independent license, but it is in direct conflict with the actual facts. How can it be said that performance was frustrated when there

* If anything more were needed to show the inapplicability of the doctrine of the *Omnia* case to the situation here it will be found at pages 8 to 10 of the Reply Brief of Amici Curiae which is hereby adopted by counsel for petitioner as supplemental to this brief.

was complete performance under the license by Timken and complete use of the patented invention from the date of its issuance in September, 1939 until September, 1942 in the manufacture of thousands of transfer cases (see Schenck affidavit (R. 105)), except for payment of the royalties due to Alma. Under the facts here it is idle to argue frustration of the contract.

The assertion (Br. p. 39) that "the patent grant is at the expense of the public domain" is definitely in conflict with the rulings of this Court in *James* v. *Campbell*, 104 U. S. 356, *Hollister* v. *Benedict & Burnham Mfg. Co.*, 113 U. S. 59, *United States* v. *American Bell Telephone Company*, 167 U. S. 224 and *United States* v. *Dubilier Condenser Corporation*, 289 U. S. 178. The argument made that contracts which deal with a subject matter which lies within the control of Congress have a congenital infirmity (Br. p. 39) and the cases cited in support of such argument have no force or effect in the instant case in the face of the holding of this Court in *United States* v. *Dubilier*, *supra*, that

> "the Constitution evinces no public policy which requires the holder of a patent to cede the use or benefit of the invention to the United States." 289 U. S. 179.

Even if it were true, as argued, that the license agreement between petitioner and respondent must necessarily be regarded as having been made subject to the possibility that at some future time Congress might so assert its whole constitutional power as to render that agreement unenforceable, this still would not import validity to Public Law 768, particularly when the law, as applied in the instant case, is urged by the Government to be perfectly valid in its retrospective aspects. The law cannot be constitutional under any pronouncement of this Court if it is to be applied retrospectively to injuriously affect vested rights under a contract and thereby take the money held to be due to one private individual for the unjust enrichment of another private individual. No one of the cases which the

Government cites under this heading were cases in which the Act under consideration was granted a retroactive effect to reach moneys which had already become due and payable over a period of years prior to the passage of the Act.

While it is true that in certain tax cases as, for example, *United States* v. *Hudson*, 299 U. S. 498, this Court has upheld a limited retroactivity, there was a very cogent reason as discussed in that case why a limited retroactivity (35 days) should be made applicable and that such retroactivity was not unreasonable or unwarranted.

The language employed at the very outset of the Act plainly implies, if not directs, a prospective operation only of the Act and not a retrospective application of it. The Act states:

> "That * * * whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States * * * ."

The word "shall" is a simple, common word which clearly denotes and expresses futurity and cannot, we submit, properly be construed as embracing past occurrences.

While it is true that Section 7 states that the Act is applicable to royalties earned, but unpaid, on the date of the notice, the only proper construction of this section is that it applies to royalties earned *subsequent to the passage of the Act* and *prior to the date of the notice* but remaining unpaid on the date of the notice. This Court has repeatedly ruled that a statute will not and may not be given a retrospective operation unless it is compelled to do so by language so clear and positive as to leave no room for doubt that it was the intention of the legislature to have the Act operate retrospectively. *United States* v. *Heth*, 3 Cranch 399, 413; *United States* v. *Union Pacific Railroad Co.*, 98 U. S. 569, 606; *Chew Heong* v. *United States*, 112 U. S. 536, 559; *Cook* v. *United States*, 138 U. S. 157, 180; *Cameron* v. *United States*, 231 U. S. 710, 720; *Shwab* v. *Doyle*, 258 U. S. 529, 534; *United States* v. *Magnolia Co.*, 276 U. S.

160, 162; *Miller* v. *United States*, 294 U. S. 435, 439 and *Hassett* v. *Welch*, 303 U. S. 303, 314.

Under the heading "Uses between the enactment of the Act and the issuance of a notice thereunder" the Government brief (p. 42) tacitly admits that until the issuance of an order the Act cannot and should not properly apply. It speaks of a so-called inchoate license and attempts again to draw a parallel between the Act of 1910 and Public Law 768. It states that:

> "Until the inchoate license was made operative through the issuance of a notice and order, however, Government contractors and subcontractors were permitted, for convenience, to proceed under their own license, and could continue to pay royalties thereunder." (Br. p. 43)

But this is not the situation here, as the payment of royalties which were due and payable to petitioner by respondent, long before the issuance of any notice and order, is entirely precluded by the order of the Third Circuit Court of Appeals which instructed the District Court to proceed no further in the instant case and by the refusal of the Circuit Court of Appeals to consider petitioner's case on its merits.

How can it properly be said that the right to sue in the Court of Claims is an adequate remedy for petitioner, who has already litigated, and obtained a judgment on, the matter of past due or accrued royalties? In face of these facts how can it properly be argued that the order of the Third Circuit Court of Appeals is not a deprivation of property without due process of law? (Government's Br. pp. 44-50)

That the relegation of petitioner to a suit in the Court of Claims against the United States with a new defense, not available to respondent Timken, "is no objection to the Act" is, we believe, fully answered by the decision of this Court in *Lynch* v. *United States*, 292 U. S. 571. The references to the hearings before

the House Committee on Patents; (Br. p. 45) and the quotation of part of the record therein (footnote 26, Br. p. 45 and footnote 27, Br. p. 46) merely emphasize the deadly parallel between the situation here and that in the *Lynch* case, namely, that Congress did not merely intend to affect the remedy but passed a law which went directly to the right. The references to petitioner's patent as a worthless one, (Br. pp. 47, 49) find no support in anything in the record except the self-serving declaration in respondents complaint in the district court (Footnote 28, p. 47) and the statement by the Presiding Officer of the Royalty Adjustment Board that the opinion of the Chief of Ordnance is that the patent is invalid. (R. 73)

IV.

THE PROCEDURE PURSUED IN THE INSTANT CASE WITH RESPECT TO NOTICE AND HEARING WAS CLEARLY VIOLATIVE OF THE CONSTITUTIONAL PROVISIONS FOR DUE PROCESS OF LAW.

The argument is made in the Government brief that our contentions in this respect are without merit because:

> "(1) due process of law does not require an administrative hearing in eminent domain proceedings; (2) the order was merely a preliminary administrative fixing of value, not binding upon the courts; and, in any event, (3) the procedure prescribed by the Act and followed in this case was reasonable and proper." (Br. p. 50-51)

A. Due Process of Law Clearly Requires a Proper Hearing Under Public Law 768.

We direct attention to our argument under the subject "Notice and Hearing" in our main brief (p. 49, 59). We believe we have fully demonstrated (*supra* pp. 11-14) that Public Law 768 is not a proper exercise of the federal right of eminent domain because it is not directed to the taking of any physical property nor is that which is to be taken,

namely,—mere money due—to be devoted to any public use. The cases which we cite in our main brief, (p. 54, 55) *Hagar* v. *Reclamation Dist. 108*, 111 U. S. 701 and *Powell* v. *Alabama*, 287 U. S. 45, definitely hold that notice and hearing are preliminary steps essential to the passing of an enforceable judgment. It cannot be argued here that Royalty Adjustment Order No. W-3 is not an enforceable judgment in view of the force and effect given to it by the Third Circuit Court of Appeals which not only closed the door of its Court in the face of petitioner but also directed the District Court to do likewise.

Public Law 768 provides for a hearing and, as held by this Court in *Morgan* v. *United States*, 304 U. S. 1:

> "* * * The right to a hearing embraces not only the right to present evidence but also a reasonable opportunity to know the claims of the opposing party and to meet them." 304 U. S. 1 at 18.

The record here shows that no opportunity, reasonable or otherwise, was ever presented petitioner to know or to find out what the claims of the opposing party, the Government, were concerning the alleged invalidity of petitioner's patent. It does not alter or help the situation any to refer to the report of the House Committee on Patents as quoted in the Government brief (p. 52). The record establishes that no reasonable opportunity was given petitioner or its counsel to discuss the matter, nor can the hearing by the wildest stretch of the imagination be designated as a conference. How can there be a conference on any matter if one of the parties is told there is to be no argument (R. 73) and no opportunity is given to know or examine the claims of the other party? How can any such Star Chamber Proceedings be properly termed an opportunity for amicable adjustment?

B. Royalty Adjustment Order No. W-3 in this Case is Manifestly Not Proper But Highly Improper.

The argument made concerning a "payment on account" (Br. p. 53) and "advance payment" (Br. p. 54) is, we submit, ludicrous in the present case where the order provides for the payment of nothing. Likewise the argument if the licensor, or petitioner here, thinks he is entitled to more than nothing, he can obtain a judicial determination *de novo*. The fallacy of this argument is that petitioner here had already obtained a judicial determination which the Government successfully urged upon the Third Circuit Court of Appeals should be held to be as completely nullified as if petitioner had never fully litigated its rights.

Colonel Vanderwerker's argument that he would hesitate to advise the Secretary of War to pay a royalty under a patent which he had reason to believe was invalid (Br. p. 55-56) does not in the slightest degree, we submit, support the constitutionality of the Act but instead strongly augurs a holding of its invalidity under the doctrine of the *Lynch* case. This Court has definitely ruled that the only authority competent to set a patent aside, or to annul it, or to correct it for any reason, is vested in the Courts of the United States. *McCormick Harvesting Machine Co.* v. *Aultman-Miller Co.*, 169 U. S. 606, 609.

Although it is urged that the holding of the Royalty Adjustment Board that petitioner's patent is invalid has no effect upon the patent's validity, such argument is purely specious. What has actually happened is that the Government has said in no unmistakable terms that so far as it is concerned the patent is invalid and that it shall continue so to hold until or unless petitioner proceeds to establish the validity of its patent by means of a new suit in the Court of Claims. An attack by the Government on its duly issued patent was most properly condemned by a statutory court in the District of Columbia in *United States* v. *U. S. Gypsum Co.*, 53 Fed. Supp. 889, as follows:

"* * * One of the first objectives and essentials of good government is order and certainty in relations between Government and citizen. This cannot be secured if the Government itself is not to be depended upon to abide its grants, even if they have been improvidently or erroneously made. The attack of the Government upon the patents under pargaraph 46 (a) is based upon the extraordinary premise that the Government can in one department issue a grant and in another question its own action, in the absence of charges of fraud in inducing the action. Common principles of justice and fairness in dealings between patent applicants and the Government gives patentees a right to assume that their patents are valid insofar as any attack on them by the Government which issued them is concerned, unless the attack is for fraud in the obtaining of the patents." 53 Fed. Supp. 899-900,

"* * * It is not within the proper function of courts to open the door by judicial innovation to Government attack on patents, retroactive in effect and without limitation in time, and thus to unsettle industrial security so far as it is based on the patent system." 53 Fed. Supp. 903,

"* * * So far as the right of the Government to attack the validity of the patents is concerned the Court rules definitely that it has no such right, and the Court no authority to pass on the same; that the patentees and those dealing with them had and have a right to assume the validity of the patents so far as any attack by the Government on its own grant is concerned." 53 Fed. Supp. 903.

The Government brief (p. 56) endeavors to contest our assertions that the Royalty Adjustment Order in this case permits the private enrichment of respondent Timken at petitioner's expense. The record here shows that large numbers of transfer cases were sold during the years 1939, 1940 and 1941, as well as in 1942 (R. 105). There is no intimation that Timken has not already been fully paid for large numbers of these transfer cases and that no royalty whatsoever was paid to Alma on most all of such cases. The Gallagher affidavit (R. 60) states none of such royalties

were charged to the Government. Petitioner's contention in this respect is stated in the Government brief (p. 56) to be

> "based upon the mistaken notion that respondent may decline to pay to petitioner royalties already collected from the United States * * *."

This is no mistaken notion insofar as petitioner is concerned, but it is based upon actual facts. Respondent has already declined and refused to pay such royalties to petitioner. Neither is it a mistaken notion that respondent may "retain those royalties against the Government" for the Government brief specifically states that respondent has not paid any moneys into the Treasury of the United States (footnote 22, p. 34). Moreover, respondent Timken is not required by Order W-3 to account to the Government for any royalties on materials for which Timken had already received payment prior to July 28, 1943, the effective date of the notice (Order, Par. 4, R. 95).

C. The Procedure Followed in this case Was Most Improper, Unreasonable, Arbitrary and Capricious.

The Government's brief (p. 58) quotes from the notice of hearing, which quotation substantiates, as we have heretofore pointed out, that the notice made reference only to the *belief* that the royalties being paid are "unreasonable and excessive." There is not the slightest intimation that the validity of the patent was to be questioned. An extract is made from the letter of petitioner's President requesting a hearing and the statement is made that "at that time petitioner's representatives recognized that the validity of the patent was directly related to the reasonableness of the royalties" (Br. p. 58-59). We most emphatically challenge the correctness of this statement.

Quotation is made from a portion of the proceedings and the answer of petitioner's counsel expressing agreement to Major Cockrell's remark that:

> "Any royalty is excessive if the patent is invalid"

is seized upon in support of the statement that

> "this leaves no doubt that the War Department did not surprise petitioner as to the nature and issues of the proceeding and that petitioner received all the privileges intended by the Act." (Br. p. 59.)

We also most emphatically deny the correctness of the assertion that petitioner was not surprised. Counsel's agreement to the statement of Major Cockrell was, of course, based upon the assumption of a proper holding of invalidity of any patent by the only duly constituted authority competent to pass upon such subject. Petitioner and its counsel could have been no more surprised than they would be if, when this case is called for hearing before this Court, the Presiding Justice would state that there was to be no argument in these proceedings because the opinion of the Chief of Ordnance is that petitioner's patent is invalid. If it be true "that petitioner received all the privileges intended by the Act," how can an Act which *intends*, let alone permits the Star Chamber Proceedings so clearly evidenced by the transcript thereof be constitutionally valid.

V.

THE ROYALTY ADJUSTMENT ACT AS A REGULATION UNDER THE FEDERAL WAR POWERS.

Although the Royalty Adjustment Act on its face indicates it to be a war measure, we maintain that there is a definite limitation on what Congress may do even under the war power. In *Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398, 426, a case upon which the Government strongly relies, this Court stated:

> "* * * But even the war power does not remove constitutional limitations safeguarding essential liberties."

The doctrine that the constitutional limitations apply equally in peace and in war was enunciated by this Court

in *Ex parte Milligan*, 4 Wall. 2, where the Court by Mr. Justice Davis said:

> "The Constitution of the United States is a law for rulers and people, equally in war and in peace, and covers with the shield of its protection all classes of men, at all times, and under all circumstances. No doctrine, involving more pernicious consequences, was ever invented by the wit of man than that any of its provisions can be suspended during any of the great exigencies of government. Such a doctrine leads directly to anarchy or despotism, but the theory of necessity on which it is based is false;"

It has since been reiterated in the following cases:

United States v. *Russell*, 13 Wall. 623, at pp. 627-628;
United States v. *Lee*, 106 U. S. 196 at p. 218;
Hamilton v. *Kentucky Distilleries Co.*, 251 U. S. 146 at p. 155;
United States v. *Cohen Grocery Co.*, 255 U. S. 81, at pp. 88-89;
United States v. *New River Collieries Co.*, 262 U. S. 341 at p. 343;
Highland v. *Russell Car, etc., Co.*, 279 U. S. 253 at pp. 261-262;
concurring opinion of Mr. Justice Murphy in *Hirabayashi* v. *United States*, 320 U. S. 81, at p. 110.

Stewart v. *Kahn*, 11 Wall. 493, from which the Government brief (p. 60) quotes, has no real pertinence to the situation in the present case as that had solely to do with an act of Congress passed in 1864, the effect of which was to set aside the running of the statute of limitations on actions between citizens of the loyal states of the Union against citizens of the states in rebellion. The statute there involved was clearly a remedial one and it was held valid because

> "* * * It promotes justice and honesty, and has nothing penal or in the nature of confiscation in its character. It would be a strange result if those in rebellion, by

protracting the conflict, could thus rid themselves of their debts, and Congress, which had the power to wage war and suppress the insurrection, had no power to remedy such an evil, which is one of its consequences." (11 Wall. 507.)

Here the statute is directly in the nature of confiscation, if not of a penal nature. To paraphrase the above quoted language, it would, indeed, be a strange result if the Royalty Adjustment Act may be used as a means by respondent Timken to rid itself of its debt to Alma.

Hamilton v. *Kentucky Distilleries & W. Co.*, 251 U. S. 146, did not involve any taking, but merely a restriction upon the disposition of liquor on the war time prohibition law of World War I. The case has no pertinence to the situation in the instant case.

A. The Royalty Adjustment Act is Not Valid as a Price-Fixing Measure.

Most of the cases upon which the Government relies in support of the Royalty Adjustment Act are definitely ones which deal with price-fixing. Such price-fixing acts have in the main been held to be valid. However, they have no pertinence to the situation in the instant case, for here there has been no price-fixing, but a denial of the right to receive any money at all. We admit, for the sake of the argument, that if Congress had chosen to pass a price-fixing law, for example, that no royalty in excess of a definite figure, say 5 per cent, should be paid under any patent royalty contract, after the effective date of the Act, such legislation might have been perfectly valid. Congress, however, did not see fit to pass any such law but one which but sequesters the money due under a private contract.

As *Yakus* v. *United States case*, 321 U. S. 414 and *Bowles* v. *Willingham*, 321 U. S. 503 upon which the Government so strongly rely deal merely with price-fixing regulations they are clearly distinguishable from the present case. Indeed, in the *Willingham case* the very quotation, contained

in the Government brief (p. 62), is preceded by this statement of the Court:

> "We are not dealing here with a situation that involves a 'taking' of property." *Bowles* v. *Willingham* (321 U. S. 503 at 517).

As we have pointed out, there is a vast difference between price regulation acts, and the Royalty Adjustment Act, the sole purpose of which is to permit the Government to step in between the private contracting parties and to issue an order under the Act, such as Royalty Adjustment Order No. W-3, which directs the licensee Timken to pay no further money at all to petitioner, but instead to pay the money due under the contract to the Government. The Order goes even further in that it does not require Timken to pay over to the Government, by way of reduction of its contract, any of the royalties that may have accrued on transfer cases delivered by Timken to the Government and for which Timken had already received payment by the Government. None of the cases cited in the Government's brief (p. 64-65) deal with a situation such as here presented. Indeed there is no really pertinent case which the Government could cite for the plain reason that the only case which deals with a parallel situation is the *Brooks-Scanlon case*. *Calhoun* v. *Massie*, 253 U. S. 170, *Norman* v. *B. & O. R. Co.*, 294 U. S. 240, *Philadelphia B. & W. R. R.* v. *Schubert*, 224 U. S. 603, deal with situations entirely different from that here presented, as is clearly exemplified by the digest of these cases contained in the Government brief (p. 67-70). There is no question here of any "prophetic discernment" of individuals such as referred to in the *Philadelphia* v. *Schubert case*. Nor is there anything in the contract between Timken and Alma which would prevent the Congress from exercising its right to pass proper regulatory measures under its patent powers as long as the enactment is in furtherance of the constitutional power to secure to inventors the rights of their discoveries. Neither is there anything

in the contract that would prevent Congress from adopting proper regulatory measures in furtherance of its war powers. The present Act does neither, but, as we have pointed out, has no other purpose than that of substituting the Government for licensors under prior private patent license contracts, so that the Government may take part or, as in the present case, *all* the past due and future royalties. In the present case, because of the retroactive application given to Royalty Adjustment Order No. W-3, it, in effect, has been used to render nugatory a prior judgment of a Federal Court.

B. The Act Does Not Satisfy the Due Process Requirements of the Constitution.

The Government brief (p. 71-74) argues that the Royalty Adjustment Act is valid because it satisfies due process requirements applicable to price-fixing legislation, but as we have pointed out, the Act is not price-fixing legislation, but a direct taking of money under the guise of eminent domain. Indeed, it is as an exercise of the right of eminent domain that the Government in its brief finds its main justification for the Act. (Brief p. 14-59).

Even though the Act should be considered as a price-fixing regulation, the manner in which it has been applied in the instant case clearly shows Royalty Adjustment Order No. W-3 to be arbitrary and capricious based as it is upon a mere "opinion of the Chief of Ordnance" with no evidence of record to support such opinion and with no opportunity having been given at any time to petitioner to examine or meet such evidence or, indeed, to offer any argument on the subject.*

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* The arbitrary and capricious nature of the action permitted by the Act is even more clearly exemplified by the Royalty Adjustment Orders in the case of *Coffman* v. *Breeze*, 65 S. Ct. 298, wherein the orders arbitrarily and without any rational basis fixed a maximum return to Coffman of $50,000 per year.

VI.

THE ROYALTY ADJUSTMENT ACT WAS NOT PROPERLY APPLIED IN THIS CASE.

The argument is made that as long as some royalties involved in petitioner's appeal of the Third Circuit Court of Appeals were charged or chargeable to the Government, there is plainly *some* application of the Act and Order W-3 to the subject matter of the appeal below (p. 75-76). It is stated (p. 76) that the "disposition of the matter by the court below would prevent any prejudice to petitioner whether or not all the royalties in suit were charged or chargeable to the United States." How can it possibly be said that the order of the Court of Appeals in this case prevents any prejudice to petitioner when the Court definitely instructed the District Court to proceed no further in the action, after the District Court had already adjudged that royalties were due and should have been paid to petitioner. All of the transfer cases effected by paragraph 4 of the judgment had been sold by Timken prior to the passage of the Act and long prior to the issuance of Order W-3. If there were *only one* of each of the various types of such cases as to which the royalties had neither been charged nor are chargeable to the Government, petitioner clearly is entitled to an adjudication as to such cases.

Although the Statement in the Government brief is in the main a fair presentation of the case, we would be decidedly remiss if we did not call attention to two glaring examples contained therein of partial quotations from the record wrenched from their context and inserted into new sentences in such a way as to constitute an entirely erroneous recital of subject matter, presented in such a way, as to make such subject matter appear an accurate recital of factual statements.

For example, there is a very significant omission in the following text beginning in line 4 of page 7 of the brief:

> "On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93-96). That Or-

> der recited that royalties payable by respondent to petitioner under the license agreement are 'directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States' of the alleged invention covered by the patent; * * *."

The categorical statement made in the sentence beginning "That Order" taken together with the matter quoted therein, makes it appear as if Royalty Adjustment Order No. W-3 contained a specific finding that the royalties payable by respondent to petitioner under the license agreement had been or were "directly or indirectly charged or chargeable to the War Department."

It will be seen by referring to the Order that the quoted language begins in the third line from the bottom of record page 93 and that when the preceding text is read in conjunction with the wrenched quotation, the Order does not form the slightest justification for the categorical statement contained in the Government brief. The omission of the words *"and which said royalties"* that appear in the Order immediately before the verb "are" with which the Government brief begins its quotation, results in a flagrant distortion.

A similar omission occurs with respect to the following:

> "* * * and to reduce the contract price of articles to the War Department or its contractors or subcontractors 'to the extent necessary to give the War Department the full benefit of the (ordered) reduction in royalty rates' (R. 95)." (Br. pp. 7-8.)

The above quoted language is taken from Paragraph 4 of the Order (R. 95), but it omits the following very significant part of this paragraph contained in lines 6 and 7 thereof (R. 95):

> "* * * *but for which licensee has not on the date of this Order received payment* * * *"

The above omissions result in distortions too significant to be anything but studied perversions and not mere inad-

vertent errors of omission. They go directly to a very vital part of petitioner's case, namely whether Royalty Adjustment Order No. W-3 is properly applicable to *any* of the *accrued* royalties involved in the present case as discussed more fully in our main Brief for Petitioner (pp. 77 to 83). They are also significant as bringing into bold relief the fatal errors of omission both in the Royalty Adjustment Act and by those who administered it in the issuance of Order W-3. Although Section 7 of the Act specifically provides it shall apply to all royalties charged to the United States it makes no provision for any investigation or determination by anyone of this all important question. Nothing could prove more conclusively that those who issued the Order made no such investigation than the fact that Mr. David L. Kreeger who appears of counsel on the Government's brief was impelled to make a belated last minute effort in October, 1944, to ascertain these most pertinent facts and to insert in the Government brief as Appendix C(1), a self-serving letter written by respondent Timken for the purpose of the present controversy*

This letter however corroborates with striking emphasis the correctness of our contentions (Brief for Petitioner pp. 77 to 83) that none of the royalties involved here were ever charged to the Government because Timken's counsel advised Timken not to pay any of such royalties to Alma, *ergo* if it did not pay them it did not charge them. Therefore there can be no public interest in such royalties but a complete and full assumption by Timken of the liability to pay such royalties.

Yet in spite of all the above the Government urges *inter alia* the validity of the obviously improvidently issued Order

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* Certainly counsel must have been fully cognizant of the rule of evidence that letters written for the purpose of the present controversy are clearly inadmissible in the first place and, secondly, that matters not of record cannot and will not be taken into consideration by this Court. See *Schley* v. *Pullman Car Co.*, 120 U. S. 575, at p. 578; and *cf. Mitchell* v. *United States*, 9 Pet. 711, at p. 731; *Pacific R. R. of Missouri* v. *Ketchum*, 95 U. S. 1, at p. 3; *South Carolina* v. *Wesley*, 155 U. S. 542, at p. 544.

No. W-3; the constitutionality of the Act which it claims justified and provided for its issuance; that the procedure provided for by the Act and followed here is reasonable and proper; that the money taken from Alma is taken for public use; that the Order W-3 can properly be used to oust the jurisdiction of a Federal Court of Appeals and render nugatory a prior judgment of a Federal District Court; that all of the above constitutes due process of law and that it is an adequate remedy for petitioner to litigate *de novo* in the Court of Claims its already judicially established right to recover past due monies in which there is and can be no public interest.

A. The Chargeability of the Royalties in Suit to the United States.

The vulnerability of Royalty Adjustment Act in failing to provide for the proper introduction of evidence or findings and the slipshod administrative procedure permitted under it is glaringly illustrated by the last minute attempt by the Department of Justice to ascertain that which logically and legally should and could have been determined in the very first place, even before any royalty adjustment notice was issued. The discussion in the Government brief (p. 77-87) even taken with its reliance upon the clearly inadmissible and improper material *dehors* the record still falls far short of proving that any of the past due royalties were charged to the United States but clearly indicate the contrary.*

* We find it extremely difficult to refrain from characterizing the action of counsel for the Government in attempting to rely upon matters *dehors* the record. Surely the clearly inadmissible letters written for the purpose of the controversy have no probative value. Likewise the paper [Appendix C(3), Govt. Br. p. 102-105], dated December 12, 1942, which is only reproduced in part. We submit that Public Law 768 is capable of application in compliance with due process of law. The Act specifically provides for a notice; likewise for a hearing. The communication dated December 12, 1942, shows that the Office of the Chief of Ordnance was

The quotations in the Government's brief (p. 81) from the transcript of proceedings before the Royalty Adjustment Board bring forth into bold relief the nature of the tactics that have been employed throughout the entire proceedings which led to the issuance of Royalty Adjustment Order No. W-3. The sworn statements in the Gallagher affidavit are that no royalties had been charged to the Government on any of the transfer cases involved in the present litigation. Gallagher's affidavit is corroborated in this respect by the inadmissible Timken letter (Appendix C(1), Govt. Br. p. 100), yet the unsupported statement of Mr. Strauch that "the royalties were charged" is accepted in the Government's brief as controlling. Naturally, as far as Timken is concerned, it wishes to create the impression if it may do so by the unsupported statements of counsel and in weasel worded letters written for the purpose of the controversy (Ex. C(1)), that all of the royalties involved in this suit were charged or are chargeable to the Government because if it can succeed in doing so, it may retain a large portion of such royalties in spite of the judgment of the District Court that the royalties were due and should have been paid by Timken to petitioner. These tactics bring out into bold relief the inadequacy of the Act to provide for a proper investigation and fact finding by the Administrative Board of the existence of the requisite condition precedent in the absence of which the Act can have no application—viz., that the royalties were charged or *are* chargeable to

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in possession of information of which it obviously could have given advance notice to petitioner prior to the hearing. We can perceive no cogent reason why a full copy of the communication of December 12, 1942, should not have been furnished to petitioner in advance of the hearing, unless it was definitely decided to place petitioner at the greatest possible disadvantage at such hearing. That this was the case is inescapable in view of what transpired at the hearing. Had petitioner or its counsel been apprised prior to the hearing of the subject matter contained in Paragraphs 7 and 8 of such communication, petitioner would have been in a position to meet the challenge to the patent's validity.

the United States. No probative or admissible affirmative *evidence* appears of record but the contrary abundantly appears.

B. The Disposition of the Case by the Court Below Was Improper and Demonstrates the Invalidity of the Act as Applied in the Instant Case.

The Government's brief argues that our contentions with respect to the ouster of the jurisdiction of the Court below are wholly without merit.

1. The court below erred in directing paragraph 5 of the District Court's judgment be vacated.

The action of the Court of Appeals in failing to hear petitioner's appeal on the merits as to Paragraph 5 of the District Court's judgment was clearly erroneous, likewise the Order to the District Court to vacate such paragraph from the judgment. If there were only one of the T-79 transfer cases to which the appeal was solely directed and, in first place, may have been sold for non-governmental use by Timken or on which royalties were not charged or chargeable by Timken to the Government, petitioner was entitled to an adjudication on the merits with respect to it. The same is also true *in any event* as to all of the transfer cases involved in the suit because the Act cannot constitutionally, we submit, be construed to operate retroactively to royalties which had become accrued and were payable prior to the passage of the Act and prior to the issuance of the notice and order under the Act.

The cases of *Watts and Co.* v. *Unione Austriaca di Navigazione*, 248 U. S. 9, and *Crozier* v. *Krupp, supra*, cited in the Government's brief, do not rule the situation here presented, as in neither of these cases was there a prior judgment in behalf of a claimant for money due, based upon transactions which had been completed (except for the payment of the money) prior to the passage of the Act in ques-

tion. Although in the Watts case this Court remanded the case to the District Court with directions that no action should be taken thereon until the restoration of peace between the United States and Austria-Hungary, it remanded the case to the District Court *"for further proceedings"* (248 U. S. 22). Here the order of the Appellate Court directed the District Court *to take no further proceedings.*

In *Crozier* v. *Krupp,* the Supreme Court of the District Court of Columbia had dismissed the bill, while the Court of Appeals had reversed and remanded. This Court, however, properly ruled in that case that in view of a stipulation whereby

> "* * * Every conceivable claim based on the prior use of infringing devices was withdrawn. * * * As a result, the case was confined solely to obtaining at the end of the suit a permanent injunction." (224 U. S. 308.)

such an injunction could not have been made to operate until the United States had appropriated the right to use the invention, and hence if granted, it could have no operative force in view of the provisions of the Act of 1910. Any resemblance between the situation in the *Watts* and *Crozier* cases and the situation in the instant case is purely superficial.

The Government brief appears to take it for granted that this Court will order a remand of this case for a determination of the questions concerning the royalties charged or chargeable to the United States and that the Court of Appeals shall proceed with the determination of the merits of petitioner's appeal, with the final result that judgment will be entered directing respondent Timken to pay such royalties as do not properly come within the purview of the Royalty Adjustment Act or Order W-3 issued thereunder. Aside from the larger question of the constitutionality of the Act, such disposition of the instant case is the determination of it which petitioner seeks.

2. The court below erred in directing that no further proceedings be had as to paragraph 4 of the District Court's judgment.

The Government brief (p. 90) asserts our contention, that the Act and Order had the force and effect of vitiating and rendering nugatory the judgment of the District Court, is baseless. We fail to see the force of this assertion. The language of the District Court's order is —

> "* * * the cause is remanded to the District Court with directions to proceed no further therein * * *" (R. 120).

The clear language is a direction to the District Court to proceed no further in the *cause* and not with respect merely to Paragraph 5 of the judgment. We do not see how it is possible to twist the order of the Court of Appeals into a ruling intended to affect only Paragraph 5 of the judgment and to have no effect insofar as Paragraph 4 thereof is concerned. Nor can we see how the explicit direction, as contained in the Court of Appeals' order, could be interpreted by the District Court to mean that it was free to use its discretion if it saw fit to do so to proceed to carry into effect the provisions of Paragraph 4 of its judgment, in the face of the positive instruction by its Appellate Court that it *proceed no further* in the *cause*.

The suggestion in the Government's brief (p. 92) that if commercial production of the transfer cases in question should be resumed after the war, such production could be the subject matter of a new complaint and that, therefore, there cannot be any valid objection to the District Court, dismissing the complaint for mootness, is, to say the least, unique, for it disregards entirely the fact that the judgment of the District Court, as to the transfer cases which it held to be covered by the patent and the District Court's proper ruling that respondent Timken is estopped to question the validity of the patent, would be res judicata in any new complaint, whereas a dismissal of the action would leave the matters, which petitioner has already litigated, entirely undecided.

CONCLUSION.

We respectfully repeat the prayers for relief, as contained in the conclusion to our main brief.

Respectfully submitted,

I. JOSEPH FARLEY,
Counsel for Petitioner.

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Supplemental Brief for the Petitioner

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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1946

Alma Motor Company, *Petitioner*, v. The Timken-Detroit Axle Company, *Respondent*, United States of America, *Intervenor*.	No. 11.

PETITIONER'S SUPPLEMENTAL BRIEF

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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1946

Alma Motor Company, *Petitioner,* v. The Timken-Detroit Axle Company, *Respondent,* United States of America, *Intervenor.*	No. 11.

PETITIONER'S SUPPLEMENTAL BRIEF

STATEMENT

On May 21, 1945 this court entered the following order:

"This case is ordered restored to the docket for reargument. Counsel are requested to give special consideration in their briefs and argument to the following questions:

"1. Whether the Royalty Adjustment Act, 56 Stat. 1013, is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-

Detroit Axle Company, to petitioner for the patented devices manufactured, sold and delivered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order.

"2. Whether Sec. 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, Timken-Detroit Axle Company."

Petitioner hereby includes by reference the Statement of The Case as contained on pages 3 to 16, inclusive, in our "Brief for Petitioner" heretofore filed. Likewise the subject matter as contained in pages 1 and 2 of said brief under the headings "Opinions Below" and "Jurisdiction." We wish to emphasize that although our argument in this brief is directed to answering the court's questions above-enumerated it is in addition and supplemental to our previous briefs filed herein and to the argument heretofore had in this case No. 806 of the October 1944 term.

ARGUMENT

1 (a) Royalty Adustment Act, 56 Stat. 1013, is unconstitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold and delivered to the Government before the enactment of the Act.

Question 1-a of the court obviously refers to that part of the Fifth Amendment reading as follows:

> "No person shall * * * be deprived of life, liberty, or property without due process of law; * * *."

The pertinent words here are "deprived," "property" and "due process of law."

The Act as applied in this case deprives Alma of money—the debt owed to it by Timken as accrued royalties.

Does the Act as applied in this case deprive Alma of anything, and if so, is it "property" within the meaning of the Fifth Amendment? The property of which the Act, as applied in this case, seeks to deprive Alma by direct legislation is money—the debt owed to Alma by Timken. The court's question answers the above query by the tacit admission, quite correctly contained therein, that the Act as applied deprived Alma of *royalties* due from respondent Timken-Detroit Axle Company to petitioner.

When the Royalty Adjustment Act was enacted on October 31, 1942, Timken owed Alma accrued royalties for all of the T-32 series of transfer cases manufactured and sold by Timken during the years 1939, 1940, 1941 and to October 31st, 1942 (see Schenck affidavit, R. 105). As to these devices, the District Court by its final judgment held they were ones on which Timken should have paid to Alma royalties in accordance with the license agreement (R. 91-92).

Therefore, when the Act was passed, as to all the patented devices theretofore manufactured under the license and sold to the Government, the license contract entered into in May 1938 (R. 88-90) between Alma and Timken was already completely executed except for the payment of the money due as royalty to Alma by Timken.

This court has recognized that a patent license is nothing more than a waiver of the monopoly of the patent as to the licensee, a contract not to sue him, or his customers, for patent infringement.

> *De Forest Radio Telephone & Telegraph Co. v. United States*, 273 U. S. 236, 241-242;
> *General Talking Pictures Corp. v. Western Electric Co.*, 304 U. S. 175, 181.

In the manufacture of goods for the Government or for anyone else by Timken or any other licensee under a license contract, the license contract concerns only the licensee and the licensor, not the Government or other buyer.

That the existence of a patent in a case such as the present does not touch or concern the Government's ownership or use of the licensed patented articles manufactured

and sold to it by Timken, was unequivocally established by the axiomatic statements of *Adams v. Burks*, 17 Wall 453, by Miller, J., at p. 456:

> "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.
>
> "But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

The devices sold to the Government before the passage of the Act were owned by it free and clear of the monopoly of the patent, and subject to no control or claim of the patentee. The rule of *Adams v. Burks* shows that this situation must be considered as though no patent were here involved. It is a rule which has been consistently applied, both before the time of that decision and down to recent years.

Bloomer v. McQuewan, 14 How. 539, 549-550;
Chaffee v. Boston Belting Co., 22 How. 217, 223;
Bloomer v. Millinger, 1 Wall, 340, 351-352;
Mitchell v. Hawley, 16 Wall, 544, 548;
Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U. S. 425, 432;
Keeler v. Standard Folding Bed Co., 157 U. S. 659, 666;
Bauer & Cie. v. O'Donnell, 229 U. S. 1, 17-18;

United States v. General Electric Co., 272 U. S. 476, 489;
Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 457;
United States v. Univis Lens Co., 316 U. S. 241, 250;
United States v. Masonite Corp., 316 U. S. 265, 277-278.

When the parties Alma and Timken entered into the license agreement on May 16, 1938 (R. 88-90), Timken being "desirous of manufacturing and selling 'Transfer Cases' embodying the said improvements disclosed in" the Ruggles and Smith patent "application Serial No. 7751" (R. 89) paid Alma Fifteen Hundred Dollars ($1500.00) and further agreed *inter alia* to pay a royalty of "Fifty Cents ($0.50) on each 'Transfer Case'" made by Timken "embodying said improvements." It is self-evident that the contractual obligation to pay the nominal royalty rate of 50c per transfer case (½ of 1%) was assumed by Timken for the right to *make* and *sell* the patented articles and thereby to reap a profit on each transfer case sold. Every time Timken manufactured and sold a transfer case it obtained a benefit, the right to retain the profit from such sale and Alma parted with the right to restrict the use of the transfer case sold by Timken. Hence as there was included in such sale Alma's waiver of its monopoly under the license contract, Timken became fully obligated to pay the agreed but purely nominal royalty to Alma.

Counsel for the Government apparently realizing fully that the Act could be valid only as an exercise of the Government's power of eminent domain and being fully cognizant of the limitations upon such power, or at least being unable to find any precedent to justify the exercise of such power to seize, not physical property, but money

owed (as past due royalty) on the contract, concocted the fanciful, if not fantastic, theory that the "taking" authorized by the Act was that of "a new license" to cover the Governmental *uses* that had occurred prior to the Act's passage, that such new license was independent of the consensual contract between Alma and Timken, performance of which contract was "frustrated" by the Government's appropriation of the independent license to cover the Government's "*uses*" of the invention prior to the Act (G. Br. p. 37 to 41).

The "new license" theory, however, conveniently neglects to take into consideration the irrefutable fact that the Government at the time of the passage of the Act, under the rule of *Adams v. Burks* and the cases cited, supra, p. 5, 6, owned the patented articles free and clear of any claim of Alma. It was no concern of the Government's that these articles had been manufactured under a patent license. The licensors had no rights or duties in relation to the Government, nor had the Government any relation to the licensors. As between licensors and licensees the only subsisting obligation was the debt Timken owed Alma as to accrued royalties. It is this accrued money which the Government seeks to take (without just compensation, as we shall show) for its own benefit.

The Government, apparently not satisfied with the fanciful and fantastic new license theory, advanced a still further theory to support the constitutionality of the Royalty Adjustment Act. This second theory is that the Act is a valid price-fixing regulation. In Petitioner's reply brief (pp. 22-26) we showed that the Royalty Adjustment Act is not a price-fixing regulation. The fact is that the Act by its very language shows that it is a *taking* of money from patent licensors and is in no sense a price-fixing regulation. The Act does not adjust royalties generally,

but attempts to take the right to royalties, for, under this Act, whenever a reduction in royalties is effected it "shall inure to the benefit of the Government by way of a corresponding reduction in the contract price" (Sec. 4) and further that the orders which are issued under the Act direct that the amount of the reduction shall be paid over to the Treasurer of the United States (R. 95).

That the effect of the Act, whatever sound or unsound theory may be applied to it, is to take, to condemn, a contract right to accrued royalties, was freely admitted in the opinion of the court below, which held:

> "What we have here is a taking of private property for public use. The property involved is the patent owner's *royalty rights under the license with the manufacturer*" (R. 116-117). (Italics ours)*.

Alma's right under its contract to collect its debt from Timken is a property right.

Is this accrued money, the debt owed Alma by Timken, property within the meaning of the Fifth Amendment?

> "The constitutional provision is addressed to every sort of interest the citizen may possess," *United States v. General Motors Corp.*, 65 S. Ct. 357 at 359.

It is well settled that rights which have been acquired under a valid contract are property rights within the meaning of the Fifth Amendment.

> "Valid contracts are property, whether the obligor be a private individual, municipality, a state, or the United States." *Lynch v. United States*, 292 U. S. 571 at 579.

* Italics ours in this and other quotations unless otherwise noted.

As we have stated, every time that Timken manufactured and sold a transfer case covered by any of the claims of the Ruggles and Smith patent, Timken owed Alma 50c in money—the royalty provided for by the license contract on such transfer case. The amount of the royalty then became a debt and Alma had a vested right to recover such debt.

That Alma had the right to the payment of such money and that such right was property cannot be gainsaid in the light of an overwhelming line of decisions of this court, *Superior Water, Light & Power Co. v. City of Superior*, 263 U. S. 125 and cases cited therein at p. 135.

When, as here, Timken refused to pay Alma the royalties due under the contract, the latter had a right of action to recover the damages it suffered because of Timken's failure to pay.

> "A right to recover damages for an injury is property * * *." *Angle v. Chicago, St. Paul, Minneapolis & Omaha Railway Co.*, 151 U. S. 1 at 19; 38 L. ed. 55 at 65.

As the Act as applied in this case is clearly retrospective, it is unconstitutional as a "taking" without due process of law.

Question 1-a propounded by the court seems clearly to indicate that the court is fully cognizant of the long line of its cases holding that although retroactivity alone is not sufficient to condemn a statute as unconstitutional, it has uniformly held, in accordance with the immutable principles of justice which inhere in the very idea of free government that retroactivity *directly* divesting vested

property rights, acting directly to that end and not as an incident of some broader general policy, cannot be constitutional under the prohibition of the Fifth Amendment against the deprivation of property without due process of law. On whatever theory the Government may attempt to sustain the retroactive application of the Act, the cases discussed and cited below indicate such retroactive application is invalid.

One of the leading cases, the facts of which are strikingly analogous to the instant case is *Osborn v. Nicholson*, 20 L. ed. 689; 13 Wall, 654, wherein the plaintiff brought suit February 10, 1869, declaring upon a promissory note made to him by the defendants for $1300 dated March 26, 1861 and payable on December 26, 1861. The defendant pleaded that the instrument sued upon was given in consideration of the conveyance of a negro slave for life and that the negro soon thereafter, on January 1, 1862, was liberated by the United States Government. The court in holding that the defendant could recover upon the note, said:

> "But without considering at length the several assumptions of the proposition, it is a sufficient answer to say that when the 13th Amendment to the Constitution of the United States was adoped the rights of the plaintiff in this action had become legally and completely vested. Rights acquired by a deed, will or contract of marriage, or other contract executed according to statutes subsequently repealed, subsist afterwards, as they were before, in all respects as if the statutes were still in full force. This is a principle of universal jurisprudence. It is necessary to the repose and welfare of all communities. A different rule would shake the social fabric to its foundations and let in a flood tide of intolerable evils. It would be contrary to 'the general principles of law and reason,' and to one of the most vital ends of government.

Calder v. Bull, 3 Dall 388. The doctrines of the repeal of statutes and the destruction of vested rights by implication, are alike unfavored in the law. Neither is to be admitted unless the implication is so clear as to be equivalent to an explicit declaration. Every doubt should be resolved against a construction so fraught with mischiefs. There is nothing in the language of the Amendment which in the slightest degree warrants the inference that those who framed or those who adopted it intended that such should be its effect. It is wholly silent upon the subject. The proposition, if carried out in this case, would, in effect, take away one man's property and give it to another. And the deprivation would be 'without due process of law.' This is forbidden by the fundamental principles of the social compact, and is beyond the sphere of the legislative authority both of the States and the Nation."

Pacific Mail Steamship Co. v. Joliffe, 2 Wall, 450, was a case wherein a pilot suing under a California statute, which allowed him to collect one-half pilotage fees when his services were refused, was met by the defense that, the act having been repealed, he could not maintain his action. On this point the court by Mr. Justice Field, stated at pages 457-458:

"The claim of the plaintiff below for half-pilotage fees, resting upon a transaction regarded by the law as a *quasi* contract, there is no just ground for the position that it fell with the repeal of the statute under which the transaction was had. *When a right has arisen upon a contract, or a transaction in the nature of a contract authorized by statute, and has been so far perfected that nothing remains to be done by the party asserting it, the repeal of the statute does not affect it, or an action for its enforcement.* It has become a vested right which stands independent of the statute. And such is the position of the claim of the plaintiff below in the present action: the pilotage services had been tendered by him; his claim to the

compensation prescribed by the statute was then perfect, and the liability of the master or owner of the vessel had become fixed."

Certainly in the instant situation the liability of the licensee for unpaid royalties for the use of the patent had become fixed at the time the Royalty Adjustment Act was passed and the Act should, if applied to them, be held invalid as to such application.

In *Ettor v. City of Tacoma*, 228 U. S. 148, the court held the repeal of a statute, which had been construed as giving consequential damages so as to affect rights obtained thereunder, was a deprivation of property without due process of law as guaranteed by the Fourteenth Amendment. The court by Mr. Justice Lurton, at page 156, said:

"The necessary effect of the repealing act, as construed and applied by the court below, was to deprive the plaintiffs in error of any remedy to enforce the fixed liability of the city to make compensation. *This was to deprive the plaintiffs in error of a right which had vested before the repealing act, a right which was in every sense a property right. Nothing remained to be done to complete the plaintiffs' right to compensation except the ascertainment of the amount of damage to their property. The right of the plaintiffs in error was fixed by the law in force when their property was damaged for public purposes, and the right so vested cannot be defeated by subsequent legislation.*"

Forbes Pioneer Boat Line v. Board of Commissioners, 258 U. S. 338, was a case wherein a state legislature had declared by special act that tolls paid by plaintiff had been properly collected after plaintiff had sued for the return to him of such tolls which, at the time of their collection, had been unlawfully exacted. Holding such action on

the part of the legislature unconstitutional under Article I, Section 10, of the Constitution and the due process clause of the Fourteenth Amendment, Mr. Justice Holmes, at page 339, said:

> "Stripped of conciliatory phrases the question is whether a state legislature can take away from a private party a right to recover money that is due when the act is passed. The argument that prevailed below was based on the supposed analogy of *United States v. Heinszen & Co.*, 206 U. S. 370, *(Rafferty v. Smith, Bell & Co.*, 257 U. S. 226), which held that Congress could ratify the collection of a tax that had been made without authority of law. That analogy, however, fails. A tax may be imposed in respect of past benefits, so that if instead of calling it a ratification Congress had purported to impose the tax for the first time the enactment would have been within its power. *Wagner v. Baltimore*, 239 U. S. 207, 216, 217. *Stockdale v. Atlantic Insurance Co.*, 20 Wall. 323. But generally ratification of an act is not good if attempted at a time when the ratifying authority could not lawfully do the act. *Bird v. Brown*, 4 Exch. 786, 799. If we apply that principle this statute is invalid. For if the Legislature of Florida had attempted to make the plaintiff pay in 1919 for passages through the lock of a canal, that took place before 1917, without any promise of reward, there is nothing in the case as it stands to indicate that it could have done so any more effectively than it could have made a man pay a baker for a gratuitous deposit of rolls."

If a state legislature cannot take away from a private party a right to recover money that is due when the act was passed, how can the Congress take away from a private party a right to receive money due when the Act, here concerned, was enacted? We submit that the Congress did not have the power to pass such an act.

William Danzer & Co., Inc., v. Gulf & Ship Island R. R. Co., 268 U. S. 633, was a case wherein the Interstate Commerce Commission attempted to apply retroactively a section of the Transportation Act of 1920 whereby a claimant was permitted to sue three carriers, despite the fact that under the ordinary statute of limitations the claimant's right was barred. The court, holding the statute would not be construed retroactively to create a liability, stated by Mr. Justice Butler at page 637:

> "Section 206(f) will not be construed retroactively to create liability. To give it that effect would be to deprive defendant of its property without due process of law in contravention of the Fifth Amendment. Cf. *Levy v. Wardell*, 258 U. S. 542, 544; *Forbes Boat Line v. Board of Commissioners*, 258 U. S. 338, 340; *Union Pacific R. R. v. Laramie Stock Yards*, 231 U. S. 190, 200, *Winfree v. Northern Pacific Ry. Co.*, 227 U. S. 296, 301."

In *Coombes v. Getz*, 285 U. S. 434, a section of the California Constitution was involved which provided that the directors of corporations should be held liable to creditors for all moneys embezzled or misappropriated by corporate officers. Holding that the repeal of the section, while creditors who contracted with a corporation were suing to enforce their right against a director, could not deprive the creditors of such rights, Mr. Justice Sutherland speaking for the court, at pages 442 and 448, said:

> "The right of this petitioner to enforce respondent's liability had become fully perfected and vested prior to the repeal of the liability provision. His cause of action was not *purely* statutory. It did not arise upon the constitutional rule of law, but upon the contractual liability created in pursuance of the rule. Although

the latter derived its being from the former, it immediately acquired an independent existence competent to survive the destruction of the provision which gave it birth. The repeal put an end to the rule for the future, but it did not and could not destroy or impair the previously vested right of the creditor (which in every sense was a property right, *Ettor v. Tacoma*, 228 U. S. 148, 156; *Pritchard v. Norton*, 106 U. S. 124, 132) to enforce his cause of action upon the contract. *Ettor v. Tacoma, supra; Hawthorne v. Calef*, 2 Wall. 10; *Steamship Co. v. Joliffe*, 2 Wall. 450; *Ochiltree v. Railroad Co.*, 21 *Wall.* 249, 252-253; *Harrison v. Remington Paper Co.*, 140 Fed. 385, 390 et seq.; *Knickerbocker Trust Co. v. Myers*, 133 Fed. 764, 767.

* * * *

"It is settled by decisions of this and other federal courts *(Ettor v. Tacoma*, and cases cited in connection therewith, *supra)* that, upon the facts here disclosed, a contractual obligation arose; and the right to enforce it, having become vested, comes within the protection of both the contract impairment clause in Art. 1, § 10, and the due process of law clause in the Fourteenth Amendment, of the Federal Constitution."

Other cases condemning the retroactive application of a statute are *Koshkonong v. Burton*, 104 U. S. 668, at 678-679; *Ochoa v. Hernandez*, 230 U. S. 139, at 153 et seq.; *Railroad Retirement Board v. Alton Railroad Co.*, 295 U. S. 330, at 349-350, 354; *Asiatic Petroleum Co. v. Insular Collector of Customs*, 297 U. S. 666, at 671. Although retroactivity has been sanctioned to some extent in the field of taxation, even there arbitrary and capricious interference with vested rights has been outlawed. *Nichols v. Coolidge*, 274 U. S. 531; *Blodgett v. Holden*, 275 U. S. 142; *Untermyer v. Anderson*, 276 U. S. 440; *Coolidge v. Long*, 282 U. S. 582; *Levy v. Wardell*, 258 U. S. 542, at 544-545; *Helvering v. Helmholz*, 296 U. S. 93, at 97-98; *White v. Poor*, 296

U. S. 98, at 102. And cf. *Graham v. Goodcell*, 282 U. S. 409, 426, 429.

Though the obligation of contracts clause of the Constitution does not restrict Congressional action, Congress is, as stated by Mr. Justice Sutherland in *Continental Illinois National Bank & Trust Co. v. Chicago, etc. Ry. Co.*, 294 U. S. 648, at 680, "without power to impair the obligation of contracts by laws acting directly and independently to that end." *Cf. Calder v. Bull*, 3 Dall. 386, 388-389; *Perry v. United States*, 294 U. S. 330, 350-351.

We submit that on the authority of the foregoing cases the retroactive features of the Royalty Adjustment Act must be held to render the Act unconstitutional under the Fifth Amendment as a denial of due process of law.

The efforts of the Government by brief and argument heretofore filed in this case serve but to emphasize the flagrantly unconstitutional retroactive features of the Royalty Adjustment Act.

The Government in its brief and argument heretofore presented herein attempted to treat the Royalty Adjustment Act as if it were like "the nose of wax" referred to by Justice Bradley in *White et al v. Dunbar et al*, 119 U. S. 47 at 53. First it attempted to justify the Act as an exercise of the power of eminent domain (G. Br. p. 14-16). Then apparently realizing the "taking" of money to be indefensible as an exercise of eminent domain, it seized upon the utterly bizarre and equally indefensible "new license" theory (G. Br. 23, 34, to 37). This theory it sought to support by referring to the Act of 1910 as amended in 1918 and by relying most heavily upon two irrelevant

cases interpreting the 1910 and 1918 Acts, *Crozier v. Krupp*, 224 U. S. 290 and *Richmond Screw Anchor Co. v. United States*, 275 U .S. 331.[1]

Next it seemed to abandon the idea of the Act authorizing the taking of a new license as a taking under the exercise of the power of eminent domain and like the proverbial drowning man's "grasping at straws" argued the validity of the Act on the ground that Alma's contract rights were "frustrated" by the "appropriation of the subject matter of the contract." (G. Br. 38) citing *Omnia Commercial Co. v. United States*, 261 U. S. 502.[2]

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[1] As we pointed out in our reply brief insofar as the case of *Crozier v. Krupp* offers any support for the Government's "new license" theory, it was distinctly overruled in that respect by *William Cramp & Sons Ship & Engine Building Company v. International Curtis Marine Turbine Company, et al.*, 246 U. S. 28 (Br. p. 2-4). We also showed that Royalty Order No. W-3 completely vitiated the new license theory (Br. p. 4), that the very language of the Royalty Adjustment Act fully demonstrates the fallacy of the new license theory and that the terms of Order No. W-3 belie the new license theory (Br. p. 7-8).

We submit that we fully demonstrated the fallaciousness of the theory of a new and independent license in "Petitioner's Reply Brief" hereinbefore filed in this case. We most respectfully refer to pages 1 to 8, inclusive, of such brief, which are hereby incorporated in the present brief by reference, wherein we show that the taking of a new license is not supported by the 1910 or 1918 Acts, or such cases as *Crozier v. Krupp*, supra, *Richmond Screw & Anchor Co. v. United States*, supra, relied upon by the Government in support of its new license theory.

[2] To speak of retroactive frustation of a completed contract such as this is a perversion of legal reasoning which only seeks to hide the inescapable fact that what is here attempted is nothing more or less than a taking of money. The Government's reliance on this "retroactive frustration" theory upon *Omnia Commercial Co. v. United States, supra*, has already been fully and ably disposed of in the original amici curiae brief (pp. 15-19) and the amici curiae reply brief (pp. 6-10).

How can it possibly be that the "taking" provided for by the Act is at one and the same time the taking of a "new license" and the entirely different, inconsistent, and contradictory—"appropriation of the subject matter of the contract"? The subject matter of the contract in the *Omnia case* was the steel plate which the Government requisitioned. The subject matter of the Alma-Timken contract is the physical objects—the transfer cases. Admittedly the Government did not "take" these physical objects from anyone. It bought them direct from and paid Alma's licensee, Timken, therefor, and as Timken was fully licensed to make, use and sell the transfer cases, the Government had the full right to use those transfer cases because they had passed "without the limit of the monopoly."

Next counsel for the Government, no doubt fully conscious of the grotesquesness resulting from their nose twisting efforts, tried a new twist, for both in brief and argument heretofore filed in this case, they attempted to support the constitutionality of the Royalty Adjustment Act by claiming that the Act is valid as a price fixing or regulation measure (G. Br. 59-73). To support this new twist they relied heavily upon the cases of *Bowles v. Willingham*, 321 U. S. 503, and *Yakus v. United States*, 321 U. S. 414. These cases involved the constitutionality of the Emergency Price Control Act, 56 Stat. 23. In both of these cases the Emergency Price Control Act was held constitutional because the Act laid down definite and specific standards to be followed in the administration of the Act. The situation in the present case, however, is not that which confronted the court with respect to the Emergency Price Control Act. The present case is, however, on all fours with that before this court, in *A. L. A. Schechter Poultry Corp. v. United States*, 295 U. S. 495,

because the Royalty Adjustment Act like the N.R.A. Act does not provide any standards to guide the administrative determination. This court in *Yakus v. United States*, *supra*, pointed out this distinction between the N.R.A. Act considered in the *Schechter case* and the Emergency Price Control Act, in the following language, which is so *apropos* to the situation presented in the instant case:

> "The Act is unlike the National Industrial Recovery Act of June 16, 1933, 48 Stat. 195, c. 90, considered in *A. L. A. Schechter Poultry Corp. v. United States*, 295 U. S. 495, 79 L. ed. 1570, 55 S. Ct. 837, 99 ALR 947, which proclaimed in the broadest terms its purpose 'to rehabilitate industry and to conserve natural resources.' It prescribed no method of attaining that end save by the establishment of codes of fair competition, the nature of whose permissible provisions was left undefined. It provided no standards to which those codes were to conform" (321 U. S. 414 at 424).

There is the furthermost important distinction enunciated by Mr. Justice Douglas in *Bowles v. Willingham*, *supra*, as follows:

> "We are not dealing here with the situation which involves a 'taking' of property."[2]

In *Panama Refining Co. v. Ryan*, 293 U. S. 388, this court, speaking by Chief Justice Hughes, held with respect to the National Industrial Recovery Act:

> "The Congress left the matter to the President without standard or rule, to be dealt with as he pleased" (293 U. S. at 418).

This language applies unqualifiedly to the situation in the instant case. As far as Royalty Adjustment Order No.

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[2] But here we *are* dealing with a situation which involves a "taking" of property, as held by the court below (supra, p. 8).

W-3 is concerned, the matter of decision was left to the opinion of the Chief of Ordnance without standard or rule to be dealt with as he pleased.[4]

The Government in its brief also relied on such cases as *Norman v. Baltimore and Ohio R. R. Co.*, 294 U. S. 240; *Philadelphia, etc. R. R. Co. v. Schubert*, 224 U. S. 603; and *Calhoun v. Massie*, 253 U. S. 170, to sustain its position as to the retrospective application of the Royalty Adjustment Act considered as a regulatory measure. The first of these, which involved the invalidating of the "gold clause" in a private contract, was explained in *Perry v. United States*, 294 U. S. 330, at 350-351, as relating to "the power of the Congress to control or interdict the contracts of private parties when they interfere with the exercise of its constitutional authority." This Federal police power, it was held in the *Perry case*, did not extend so far as to save from unconstitutionality the repudiation of the Government's own contract to pay in gold. The *Perry case* is more in point than the *Norman case* in a situation such as this, where the Government seeks to effect a purely monetary gain at the expense of a private citizen. And it is further to be noted that the "gold clause" resolution did not involve obligations accrued and due before its passage.

In connection with the *Schubert case, supra*, involving a recovery under the Employers' Liability Act despite a pre-existing contract, the Government has apparently overlooked *Winfree v. Northern Pacific Ry.* Co., 227 U. S.

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[4] When counsel for petitioner, at the so-called hearing before the Royalty Adjustment Board, posed the question that if the Board were going to examine into the validity of the patent, should it not be by the presentation of proper evidence, he was told by the Presiding Officer, Major Cockrell.

"It is not proposed that there shall be any argument in this proceeding at all. * * * The opinion of the Chief of Ordnance is that the patent is invalid" (R. 73).

296. There the plaintiff contended that the very Act involved in the *Schubert case* should not be applied retroactively to cover the death of an employee which occurred in an accident prior to the passage of the Act. The court, speaking through Mr. Justice McKenna, held that the Act should not be construed as retrospective, and said, at page 301:

> "Plaintiff, to support his contention that the act of Congress has retroactive operation, presents a very elaborate argument based on the extensive effect which courts have given to remedial statutes, applying them, it is contended, to the past as well as to the future. The Court of Appeals met the argument, as we think it should be met, by saying that statutes that had received such extensive application were 'such as were intended to remedy a mischief, to promote public justice, to correct innocent mistakes, to cure irregularities in judicial proceedings or to give effect to acts and contracts of individuals according to the intention thereof.' It is hardly necessary to say that such statutes are exceptions to the almost universal rule that statutes are addressed to the future, not to the past. They usually constitute a new factor in the affairs and relations of men and should not be held to affect what has happened unless, indeed, explicit words be used or by clear implication that construction be required."

In *Calhoun v. Massie, supra*, this court sustained an Act which, in granting claims against the Government, limited to 20 per cent the fees of attorneys who had before the Act's passage contracted for larger fees. In this case twenty per cent was paid by the Government to plaintiff and eighty per cent to the defendant. Plaintiff brought action in the state court to recover an additional sum amounting to thirty per cent of the claim. Mr. Justice Brandeis, speaking for the court, page 176, said:

> "At the time when the contract was entered into

> there was no legislation general or special which conferred upon Massie any right of recovery even if he should establish to the satisfaction of Congress that his claim was equitable. A statute making an appropriation to pay the claim was thus a condition precedent to liability on the part of Massie to Calhoun; and the thing contracted for was Calhoun's aid in securing its enactment. The aid was to be given by representing Massie before the Court of Claims. But both of the parties knew that, although Calhoun might have success before the Court of Claims, Congress would still be free to refuse both to recognize the claim as an equitable one and to make an appropriation for its payment. They also knew that if it concluded to grant relief, Congress was free to do so upon such conditions as it deemed proper."

And as further basis for the court's opinion, to which four justices dissented, he stated (1) that the contract for fees had contained an implied assent to limitation by Congress, and (2) that objection to the limitation had been waived by acceptance of the allowed 20 per cent. Furthermore, in the *Calhoun case* there was not, as in the instant case, the taking away from a private party of a right to recover an amount that was due when the Act was passed.

In all of these cases on which the court below, as well as the Government heretofore relied to support the position that the retroactive application of the Royalty Adjustment Act is constitutionally valid, not one of them presents a situation where the Government attempted to take private property without just compensation. None of them dealt with a direct and retroactive taking of vested property rights for its own benefit, as does the Royalty Adjustment Act. There is no public policy which requires that the Government be allowed to take private contract rights without compensation; *Perry v. United States, supra,* indicates that a directly contrary policy prevails.

As Mr. Justice Holmes said, speaking for the court in *Pennsylvania Coal Co. v. Mahon*, 260 U. S. 393, at 415: "* * * while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking." It helps the Government's argument not a whit to call the Royalty Adjustment Act a regulatory act, for, if it is, it is a regulation which goes too far, a regulation which is an undeniable taking.

There is no clear, strong and imperative declaration of retroactivity in the Royalty Adjustment Act and therefore the Act should not be construed to cover royalties accrued prior to its passage.

The Royalty Adjustment Act and the application of it to this case by Royalty Adjustment Order No. W-3, allegedly issued pursuant to the authority of the Act, is clearly retrospective. The Government's position that the Act may be validly construed to cover accrued royalties (G. Br. 32-50 and 66-71) is wholly unsound, as we have demonstrated and also in view of the express language of the Act and in view of the failure of the Act to show on its face that Congress intended it to apply retrospectively.

This court in *Shwab v. Doyle*, 258 U. S. 528 at 534, 535 by Justice McKenna stated:

> "The initial admonition is that laws are not to be considered as applying to cases which arose before their passage unless that intention be clearly declared. 1 Kent. Com. 455; *Eidman v. Martinez*, 184 U. S. 578, 46 L. ed. 697, 22 Sup. Ct. Rep. 515; *White v. United States*, 191 U. S. 545, 48 L. ed. 295, 24 Sup. Ct. Rep. 171; *Gould v. Gould*, 245 U. S. 151, 62 L. ed. 211, 38

Sup. Ct. Rep. 53; Story, Const. § 1398. The comment of Story is: 'Retrospective laws, are, indeed, generally unjust; and, as has been forcibly said, neither accord with sound legislation nor with the fundamental principles of the social compact.'

"There is absolute prohibition against them when their purpose is punitive; they then being denominated ex post facto laws. It is the sense of the situation that that which impels prohibition in such case exacts clearness of declaration when burdens are imposed upon completed and remote transactions, or consequences given to them of which there could have been no foresight or contemplation when they were designed and consummated.

"The Act of September 8, 1916, is within the condemnation.

"There is certainly in it no declaration of retroactivity, 'clear, strong, and imperative,' which is the condition expressed in *United States v. Heth*, 3 Cranch, 398, 413, 2 L. ed. 479, 483, also *United States v. Burr*, 159 U. S. 78, 82, 83, 40 L. ed. 82-84, 15 Sup. Ct. Rep. 1002."

In *White v. United States*, 191 U. S. 545 at 552, 48 L. ed. 295, it was said:

"Where it is claimed that a law is to have a retrospective operation, such must be clearly the intention, evidenced in the law and its purposes, or the court will presume that the lawmaking power is acting for the future only, and not for the past; that it is enacting a rule of conduct which shall control the future rights and dealings of men, rather than review and affix new obligations to that which has been done in the past. * * * Retrospective legislation is not favored. Cooley, Const. Lim. 529. Retrospective laws which have been sustained in the courts have ordinarily had the effect to remedy irregularities in legal procedure, assessment of property for taxation, and the like. Cooley, Const. Lim. 530, 531."

As with the Act of September 8, 1916 considered in *Shwab v. Doyle, supra,* so it is with the Royalty Adjustment Act: "There is certainly in it no declaration of retroactivity, 'clear, strong, and imperative'." The language employed in the opening paragraph of the Act plainly implies, if not directs, a prospective operation only of the Act and not a retrospective application of it. The Act states:

> (Sec. 1) "That * * * whenever an invention, whether patented or unpatented, *shall* be manufactured, used, sold, or otherwise disposed of for the United States * * *."

The word "shall" is a simple, common word which clearly denotes and expresses futurity and cannot, we submit, properly be construed as embracing past occurrences.

While it is true Section 7 provides that the Act is applicable to royalties earned, but unpaid, on the date of the notice, the only valid construction that can be given to this section is that it applies to royalties earned *subsequent to the passage of the Act and prior to the date of the notice* but remaining unpaid on the date of the notice. This court has repeatedly ruled that it will not, and may not, give a statute retrospective operation unless it is compelled to do so by language so clear and positive as to leave no room for doubt that it was the intention of the legislature to have the Act operate retrospectively. *United States v. Heth,* 3 Cranch, 399, 413; *Chew Heong v. United States,* 112 U. S. 536, 559; *Cameron v. United States,* 231 U. S. 710, 720; *Shwab v. Doyle, supra; United States v. Magnolia Petroleum Co.,* 276 U. S. 160, 162; *Miller v. United States,* 294 U. S. 435, 439 and *Hassett v. Welch et al,* 303 U. S. 303, 314.

The legislative history of the Act fails to disclose any clear intention to make the Act have retrospective application.

The legislative history of the Royalty Adjustment Act seems clearly to indicate it was the intention of Congress to make the Act prospective rather than retrospective.

The Act as originally introduced contained this provision:

> "Sec. 7. This Act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or material deliverable to the Government *from and after the date of the approval hereof*" Ap. 2, pp. 6 and 7)[5].

Had this provision been allowed to stand, as it should have been, no retrospective application of the Act could have been possible. The proponents of the Act, however, overreached themselves, for the Act was then amended by striking Sec. 7 as originally written and as quoted above and substituting therefor the following:

> "Sec. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the

[5] For the convenience of the court we filed a number of sets of a separately bound volume entitled "Appendix to Petitioner's Brief" and containing the following:

(a) Public Law 768, 77th Congress;

(b) Hearings Before Committee on Patents, 77th Congress on H.R. 7620 (Public Law 768);

(c) Report No. 2602 of House of Representatives Committee on Patents;

(d) Reprint from pages of Congressional Record, Vol. 88, No. 178, pp. 8482 to 8484, inc. Proceedings in Senate, Thursday, October 15, 1942;

(e) Reprint from pages of Congressional Record, Vol. 88, No. 184, pp. 8823 to 8825, inc. Proceedings in House, Thursday, October 22, 1942.

United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this Act. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act" (Ap. 2, pp. 6-7, 9-10).

After the hearings before the House Committee on Patents during which the retrospective nature of the Act was considered and called to the attention of the Committee (Ap. 2, pp. 41, 55, 77), Sec. 7 of the Act was again amended so that "this Act," the last two words of the first sentence of Sec. 7, were stricken and "the notice provided for in Sec. 1 hereof" were inserted in lieu thereof. A similar change was made with respect to the last two words "this Act" in the second sentence of Sec. 7 (Ap. 3, p. 2), thereby putting the phraseology of Sec. 7 of the Act in the form in which it appears (R. 58, 59) in the Act as finally passed.

What could have been the purpose of changing "this Act" to "the effective date of the notice provided for in Sec. 1 hereof," if it were not to eliminate the possibility that the provisions of the Act would be effective prior to its enactment?

We doubt that Congress, in view of the hasty (Ap. 4, pp. 1, 2, Ap. 5, p. 13) consideration given to the Act, realized the full import of the amendments which rendered the Act susceptible of such an iniquitous, retrospective application as was given to it in the instant case. Surely Congress never intended that a patent owner should lose all past, due and accrued royalties where his licensee as here seeks

to welsh on his contract, refuses to pay his debt to his creditor and, while admitting that he has never charged nor paid any of the past due royalties to the Government, urges the Act to escape a judgment rendered against him by a Federal District Court. Yet not only is that the effect given to the Act by the Third Circuit Court of Appeals, but the court permitted the Order to deprive it of its previously acquired jurisdiction to act on the merits of Alma's appeal.

1 (b) The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent Timken-Detroit Axle Company to petitioner for the patented devices manufactured, sold and delivered to the government before the promulgation of the Departmental Royalty Order.

As we have shown supra p. 6, every time Timken made and sold a transfer case dominated by any claim of Alma's patent, Timken received the benefit of making a profit with the right to retain the same because of Alma's waiver of its monopoly under the license contract, and Alma parted with its corresponding right, hence the right to the royalties which became due to Petitioner between the date of the Act and that of the royalty Order were as completely vested in Petitioner as were the royalties due prior to the date of the Act and all that we have stated in this brief in answer to Question 1-a applies equally to these royalties, excepting, of course, the arguments made to show that the Act should not be given retrospective application. The taking of the right to these royalties was, as we have demonstrated, not only the retrospective and direct taking of a vested property right of Alma, but plainly the taking of the right to money and therefore not

a proper exercise of the power of eminent domain. Aside from its retroactively fatal invalidity "the Act as applied" is unconstitutional under the due process clause of the Fifth Amendment in many other respects as we shall show, as well as invalid under the just compensation clause thereof as we shall also demonstrate.

Although Question 1 of the court seems to be directed primarily to the retrospective features of the Act, we feel it to be our duty to direct argument to those other aspects of the Act in which it is unconstitutional under the due process clause of the Fifth Amendment as applied to any and all royalties due from respondent to petitioner. In this connection we direct attention to the fact that the Act is without precedent as an attempt by Congress to abrogate contract rights by direct legislation.

When the departmental Royalty Order No. W-3 was promulgated on July 24, 1943, the judgment of the District Court for the District of Delaware rendered December 2, 1942 in favor of Alma had become final because of Timken's failure to file any appeal therefrom, Alma had perfected its appeal to the Third Circuit Court of Appeals from so much of the District Court's judgment as was unfavorable to it, and the Court of Appeals had therefore acquired full and complete jurisdiction over Alma's appeal.

After Order No. W-3 was issued Timken filed a Motion to Dismiss Alma's appeal in the Third Circuit Court of Appeals urging in support of such motion that the Royalty Adjustment Act and Order No. W-3 issued herein formed a defense to the payment of the royalties by it to Alma, the constitutionality of the law thus being placed squarely before this court *Coffman v. Breeze Corporations, Inc. et al.* 323 U.S. 316.

The Circuit Court of Appeals by its decision herein and particularly by its Order (R. 121) under the terms of which it remanded the case to the District Court

> "with directions to proceed no further therein unless and until it shall appear to the court that a justiciable controversy again exists between the parties, arising out of the facts set forth in the Complaint, except that the court may if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the Complaint as moot."

in effect ruled that Royalty Adjustment Order No. W-3 issued July 28, 1943, by an Administrative Board of the Executive Department not only completely ousted its jurisdiction, which had attached on February 27, 1943 and prevented it from considering the case which was properly before it, but also said Order rendered nugatory that part of the judgment of the District Court, entered December 2, 1942, which had become final because of Timken's failure to appeal therefrom. As Order No. W-3 was clearly not authorized by the Royalty Adjustment Act, the issuance of the Order was just as much a denial of "due process" as if the Act had never been passed.

Order No. W-3 was not issued pursuant to, nor was it authorized by the Royalty Adjustment Act.

The scope of the Royalty Adjustment Act, or the definition of the limitations upon the applicability of the Act, is contained in Sec. 7 thereof (R. 58). That section sets forth the *condition precedent*, or *"the prime requisite,"* which must prevail before there can properly be any application of the Act. This condition precedent is that the "Act shall apply to all royalties directly or indirectly charged or chargeable to the United States," etc.

What are the facts with respect to the royalties owed by Timken to Alma for the patented devices manufactured, sold and delivered to the Government both before the enactment of the Act and before the promulgation of the departmental royalty Order? The record here establishes (beyond a peradventure) that none of the royalties due Alma were ever paid to it by Timken. They were never charged nor are they chargeable to the United States. The Board made no finding as to this most important fact.[6]

In the proceedings before the Royalty Adjustment Board, Timken's counsel, Mr. Strauch, stated with respect to the unpaid royalties on the T-79 Cases.[7]

> "We never agreed that royalties were due—royalties were never charged on them, * * *" (R. 68).

There is also the statement made in the Gallagher affidavit, Ex. B (R. 60) in support of Timken's motion to dismiss in the Third Circuit Court of Appeals, as follows:

> "* * * royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; * * *"

Indeed, Timken could not claim, as it has done throughout this entire litigation, that it does not have to pay the royalties to Alma, and at the same time charge such unpaid royalies to the Government. Consequently, there has been no *claim* made by anyone representing Timken, the Gov-

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[6] The language as used in the first paragraph of Order No. W-3 which said "royalties *are* directly or indirectly charged or chargeable to the War Department" (R. 93) cannot be construed as a "finding" but is obviously merely an incorporation in the Order of the language of Sec. 7 of the Act.

[7] The T-79 Cases are the ones involved in Alma's appeal on the Merits to the Third Circuit Court of Appeals (R. 51-60).

ernment, or the Royalty Adjustment Board, let alone any finding by the latter, that any of the royalties were ever charged, or are now chargeable, to the Government.

Timken, as we have heretofore pointed out, obtained the privilege under the contract of making and selling transfer cases, embodying the invention of the patent, to the Government. It thereby gained the right to make a profit on such cases and, because of the license granted, continued to manufacture and sell said cases without any fear that it could be sued by Alma as an infringer and be compelled to turn over to Alma infringing profits. Timken makes no claim that it did not make any profit on the transfer cases in issue that it made and sold, but in spite of the judgment rendered against it by the District Court, it claims the Act relieves it of paying its debt to Alma, while in the same breath it claims it does not have to pay anything over to the Government. Or, in other words, Timken says the Act applies only to relieve me of paying the money I owe to Alma and as I have not charged any royalty to the Government, I do not have to turn any of this money over to anyone but can keep it all myself.

Could there possibly be a more flagrant example of a law that takes away one man's property and gives it to another? *Osborn v. Nicholson, supra.*

As a matter of law Timken has assumed the full burden to pay Alma the royalties due and cannot properly charge them to the government.

Timken, by its action of refusing to be bound by the license contract and by not charging royalty to the Government, or anyone else, on the large number of transfer

cases it sold and which royalties were held by the District Court should have been paid by Timken to Alma, legally assumed the full and sole obligation for the payment thereof. Timken, in refusing to pay royalty on transfer cases, admitted by its counsel, Mr. Strauch, in the District Court to be ones which were dominated by the claims of the Ruggles and Smith patent (A.A. p. 151a-153a), and by its attempt in the District Court to attack the validity of the patent under which it was licensed, in contravention of the rule of law that a licensee under such condition is estopped to attack the patent's validity, was fully aware of the liability which it assumed.

> "Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think that the defendants are estopped from alleging that invalidity." *Kinsman et al v. Parkhurst*, 18 How. 289, 293.

Timken's conduct was the equivalent of its saying to the Government, "I have assumed the full responsibility for the payment of these royalties. As this is a matter solely between Alma and Timken, Timken is not charging any of these royalties to the Government." In view of Timken's conduct, the following statement of District Judge Kirkpatrick is, we submit, controlling upon the situation before this court:

> "* * * I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here" (R. 36).

Surely it was never the intention of Congress that the Royalty Adjustment Act should be used as it has been in this case to dispose summarily of a purely private contro-

versy between citizens of different states in a pending case arising under Article III, Sec. 2 of the Constitution of the United States. Nor could it possibly have been the Congressional intent that the Act could be used as a defense to the payment of royalties which the record shows were never charged to the Government and as to which Timken, as a matter of law by its conduct, assumed full and complete legal responsibility for payment.

Order No. W-3 was not authorized by, or issued pursuant to the Royalty Adjustment Act, because none of the royalties here in issue were ever charged to the Government by Timken and as Timken had assumed the full responsibility for the payment thereof the use made of the order to relieve Timken was clearly a denial of due process.

Aside from the fact that Order No. W-3 was not authorized by the Act because none of the royalties affected by it were, as we have demonstrated, charged or chargeable to the United States, the Act does not authorize, as we shall show, the issuance of an Order denying all royalty on the ground of alleged invalidity of a patent.

The language and the only language of the Act that authorizes the issuance of an Order under it is:

> "* * * Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, *taking into account the conditions of wartime production*" (R. 56).

The Act clearly and unmistakably sets forth one condition and only one condition to be taken into account by "the head of the department or agency of the Government"

by whom the Order is to be issued and which Order shall "fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just" and that condition is *"conditions of wartime production."*[8]

Surely no argument should be needed to convince this court that increased production as the result of wartime production could not possibly render invalid the Ruggles and Smith patent, the validity of which was so fully recognized by Timken in 1938 when Timken paid $1,500 down to get a license under it and at that time contracted to pay a royalty for the use of the inventions covered by its claims. If these inventions were used more extensively because of wartime conditions, such greater use is highly persuasive of the utility and novelty of the inventions and therefore of validity instead of invalidity of the patent.

The Royalty Adjustment Act as applied to any and all royalties due Alma by Timken is unconstitutional as a delegation to an administrative board of the executive department of the government of a purely judicial prerogative—the right to adjudicate the validity of a duly issued United States Letters Patent.

The grant of Letters Patent arises under the constitutional provision that

> "Congress shall have power * * * to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries" (Art. I, Sec. 8).

[8] War was not declared until December 7, 1941. Certainly the 1939, 1940 and most of the 1941 production was not "wartime" in any sense of the meaning.

The Government has urged that, as Congress has the right to legislate with respect to patents under the above provision of the Constitution, it was within its power to pass the Royalty Adjustment Act. It is to be carefully noted, however, that the power of Congress under the patent clause is a decidedly limited power. In other words, Congress may only legislate under this provision in such a way as to *promote* the progress of science and to *secure the exclusive rights of inventors to their respective discoveries.* We doubt very much that this court could properly hold valid under Article I, Sec. 8 of the Constitution, any Act of Congress which would frankly announce it was its purpose to take away from inventors the right to their discoveries. Yet that is exactly the effect and purpose of the Royalty Adjustment Act.

The Acts of 1910 and 1918 so heavily relied on by the Government as the "prototypes" of the Royalty Adjustment Act, are not the "prototypes" but the very *antitheses* of the Royalty Adjustment Act. Both of these Acts, as clearly pointed out in *Sperry Gyroscope Co. v. Arma Engineering Co.*, 271 U. S. 232, were "to provide additional protection for owners of patents." They gave patent owners a right to sue the Government in the Court of Claims for a tort, a right which did not exist before. In other words, they gave patent owners a right of suit which did not exist under the Tucker Act because there could be no implied contract in the commission of a tort, whereas the sole and only possible intent of the Royalty Adjustment Act is to take away from owners of patents a very substantial part of the protection of the patent law as heretofore uniformly administered. Furthermore the 1910 and 1918 Acts did not interfere with prior existing vested contract rights, as does the Royalty Adjustment Act.

The grant by the United States of a patent is a matter of right and not of grace or favor.

"That the government of the United States when it grants letters-patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser, we have no doubt. The Constitution gives to Congress power 'to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries,' which could not be effected if the government had a reserved right to publish such writings or to use such inventions without the consent of the owner. Many inventions relate to subjects which can only be properly used by the government, such as explosive shells, rams, and submarine batteries to be attached to armed vessels. If it could use such inventions without compensation, the inventors could get no return at all for their discoveries and experiments. It has been the general practice, when inventions have been made which are desirable for government use, either for government to purchase them from the inventors, and use them as secrets of the proper department; or, if a patent is granted, to pay the patentee a fair compensation for their use. The United States has no such prerogative as that which is claimed by the sovereigns of England, by which it can reserve to itself, either expressly or by implication, a superior dominion and use in that which it grants by letters-patent to those who entitle themselves to such grants. The government of the United States, as well as the citizen, is subject to the Constitution; and when it grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor." *James v. Campbell*, 104 U. S. 356 at pp. 357-358.

To the same effect are: *Wilson v. Rousseau*, 4 How. 646, 674; *Cammeyer v. Newton*, 94 U. S. 225, 234-235; *Hollister v. Benedict & Burnham Mfg. Co.*, 113 U .S. 59, 67-68; *United States v. Palmer*, 128 U. S. 262, 270-272; *Solomons v. United States*, 137 U. S. 342, 346; *William Cramp & Sons Ship & Engine Bldg. Co. v. International Curtis Marine Turbine Co., et al*, supra.

The granting of a patent has frequently been termed to be the making of a contract between the inventor and the Government by which the inventor is granted the right to enforce his limited monopoly in the constitutional courts of the United States in return for the disclosure of his invention to the public with the unrestricted right of the latter to use the invention upon the expiration of the patent.

> "Rights against the United States arising out of a contract with it are protected by the Fifth Amendment. *United States v. Central Pacific R. Co.*, 118 U. S. 235, 238; *United States v. Northern Pacific Ry. Co.*, 256 U. S. 51, 64, 67. *When the United States enters into contract relations, its rights and duties therein are governed generally by the law applicable to contracts between private individuals.*" *Lynch v. United States*, 292 U. S. 571 at 579.

This court has repeatedly held a patent to be property entitled to the same legal protection as other property.

> *Seymour v. Osborne*, 11 Wall. 516;
> *Cammeyer v. Newton*, supra;
> *United States v. Palmer*, supra.

On the question as to whether or not an executive branch of the Government has the power under the Constitution

to declare a duly issued United States Letters Patent invalid, this court said:

> "* * * that when a patent has received the signature of the Secretary of Interior, countersigned by the Commissioner of Patents, and has had fixed to it the seal of the Patent Office * * * it is not subject to be revoked or canceled by the President or any other officer of the Government * * *."
>
> "The only authority competent to set a patent aside or to annul it or to correct it for any reason whatever is vested in the courts of the United States * * *." *McCormick Harvesting Machine Co. v. Aultman-Miller Co.*, 169 U. S. 606 at 608, 609.

Likewise it held recently in *Hartford Empire Co. v. United States*, 323 U. S. 386 at 415:

> "That a patent is property, protected against appropriation both by individuals and by Government, has long been settled."

It would be but a mere subterfuge bordering on chicanery to argue that the Royalty Adjustment Board by its Order No. W-3 in this case did not declare the Ruggles and Smith patent invalid. The real facts are clearly revealed that the Board's issuance of the said Order—holding a fair and just royalty to be zero—was predicated entirely upon "the opinion of the Chief of Ordnance is that the patent is invalid" (R. 73). There is absolutely no evidence in the record to indicate upon what the opinion of the Chief of Ordnance is predicated and therefore Alma has never had any opportun y to contest the correctness of this opinion. Therefore, the action and Order of the Board annulled the patent insofar as the Government of the United States is concerned.

> "One of the first objectives and essentials of good Government is order and certainty in relations be-

> tween Government and citizen. This cannot be secured if the Government itself is not to be depended upon to abide its grants, even if they have been improvidently or erroneously made." *United States v. U. S. Gypsum Co.*, 53 F. Supp. 889 at 899-900.

Indeed, this court has held that the rule of estoppel against a licensee attacking the validity of a patent under which he is licensed applies as fully to the United States as it does to a private citizen, *United States v. Harvey Steel Co.*, 196 U. S. 310.

While it might be urged that an Order issued by a Royalty Adjustment Board is not a final determination of facts upon which the enforcement of the constitutional rights of the citizen depends because of the right (?) given by the Act to sue the Government, a *different party*, in the Court of Claims, the mere issuance of an Order makes the Order a finality with respect to a licensor's rights to pursue a cause of action against his licensee as the Act as applied in this case demonstrates. Alma cannot under the Act sue in the Court of Claims for satisfaction of the judgment rendered by the District Court as to the royalties due to it by Timken, nor can it even ask that the judgment of the District Court that Timken is estopped to contest the validity of the Ruggles and Smith patent be enforced. The mere issuance of the Order was a finality as to that. Neither can it ask the Court of Claims to direct the Third Circuit Court of Appeals to hear the merits of its appeal, as the Court of Claims clearly has no jurisdiction over any Federal Court. Therefore, the mere issuance of an Order, without more, becomes a final determination, acting in any case, and particularly as the Act was applied in this case, to prevent Alma from enforcing its constitutional rights against Timken.

Question 1 of the court, as we have shown, is directed to the constitutionality of the act under the due process clause of the 5th Amendment. With respect to Question 1a we have demonstrated that the act is clearly unconstitutional under the Amendment as applied to royalties due before the passage of the Act, and we have also demonstrated by the foregoing that the Act is also unconstitutional under the due process clause as applied to any and all royalties under Question 1b.

2. Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a District Court, does not save to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, the Timken-Detroit Axle Company.

We must consider what Alma's rights were prior to the issuance of "any order" as referred to in Sec. 2 of the Act and specifically Order No. W-3 issued July 28, 1943. These rights are as follows:

1. Under Alma's contract of May 16, 1938 with Timken, the right to collect the royalty provided for in the contract for every transfer case made and sold by Timken dominated by any claim of the Ruggles and Smith patent.

2. Alma's right to enforce collection of such royalty by an action in a Federal District Court against Timken wherein the existing rule of law, which estops a licensee under a patent to deny its validity, would be enforced.

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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1946

Alma Motor Company,
Petitioner,

v.

The Timken-Detroit Axle Company,
Respondent,

United States of America,
Intervenor.

No. 11.

PETITIONER'S SUPPLEMENTAL REPLY BRIEF

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3. Alma's right to enforce the judgment of the Federal District Court rendered in its favor prior to July 28, 1943.

4. Alma's right to a hearing on the merits of its appeal in the Third Circuit Court of Appeals.

What rights does Alma have under the Royalty Adjustment Act? The Third Circuit Court of Appeals said "by the express terms of the statute he (Alma) is entitled to sue for what he believes himself to be entitled."

What does the statute say? Sec. 1 thereof specifically provides:

> "The licensor shall not have any remedy by way of suit, set off, or other legal action against the licensee for any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the royalties fixed in such order, shall be as provided for in Sec. 2 hereof."

Turning to Sec. 2 of the Act, we find that Alma may institute suit in the Court of Claims

> "* * * to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale or other disposition of the licensed invention for the United States, *taking into account the conditions of wartime production*"

and we also find that Sec. 2 provides that the United States

> "may avail itself of any and all defenses, general and special, that might be pleaded by defendant in an action for infringement as set forth in Title Sixty of the Revised Statutes, or otherwise."

As we have heretofore pointed out, the Act by its specific provisions takes away from Alma a very important right, that is, the right in the enforcement of the contract obligations, to the full extent of the existing rule of law which estops a licensee under a patent to deny its validity. We reiterate and direct the attention of the court to the fact that this rule of law was applied by the District Court of Delaware in the suit between Timken and Alma and that the District Judge specifically ruled Timken was estopped to contest the validity of the Ruggles and Smith patent (Judgment, R. 91).

In view of the many questions directed to counsel during the original argument in this court on this case on April 25 and 26, 1945 by many of the justices as to whether Alma could recover the full amount of royalty in the Court of Claims, we direct the court to the following:

How much latitude may the Court of Claims exercise in its application of the Act? The Act specifically provides that when the Court of Claims examines into the question of what "shall constitute fair and just compensation" it shall take into account "the conditions of wartime production."

If it be assumed that under normal peacetime production Timken would have made, let us say, 10,000 transfer cases a year, then Alma would have received $5,000.00 (also assuming, of course, that Timken would have paid its honest debt). If it be assumed that Timken's production of transfer cases, because of wartime conditions, amounted to 100,000 cases per year, Alma would be entitled under the contract to collect $50,000 per year. But what is to be the standard which the Court of Claims is supposed to use to determine what is a fair and just royalty, "taking into

account the conditions of wartime production"? Is it the amount of yearly income which, in the opinion of the Royalty Adjustment Board, is as much money as any patent owner should be entitled to earn in a year in royalties on his patented invention? For example, in *Coffman v. Breeze Corporations, Inc., et al,* supra, the Royalty Adjustment Board arbitrarily decided that Coffman could not collect in any one year more than $50,000.[9] What, if any, ratio is there to be between the amount that might be earned under the contract by the patent owner in peacetimes and the amount which the Court of Claims "taking into account conditions of wartime production" should decide would be fair and just compensation to such owner? The Act is absolutely barren of any suggestion, and there is not the scintilla, of a standard set forth in the Act to guide either the Royalty Adjustment Board or the Court of Claims in this respect.

Is the standard to be the amount the patent owner would have made in peacetime production? Taking the instant case, for example, the Schenck affidavit (R. 105) shows that Timken made and sold, roughly, 50,000 cases in 1941 and but slightly over 30,000 cases in 1942. Conditions of wartime production therefore, at least immediately after the entry of this Nation into the conflict, resulted in a decrease instead of an increase in Timken's production. Could the Act therefore possibly be administered to increase the royalty rate provided for by the contract because Timken produced less in 1942 than it did in 1941? This question answers itself because Alma could never demand more than the contract amount from either Timken or the Government for the use of its patent. The invention covered by the Ruggles and Smith patent

[9] The record in the *Coffman case* indicated that the contract royalties of Coffman amounted to $371,625.96 per year.

is not of the type that is limited in its application to the production of ordnance or other wartime material. It is an invention that is capable of widespread use for the production of four-wheel drive trucks having extensive private or commercial uses. The worth of this invention had been amply demonstrated by governmental use thereof by December 1941. Can it be assumed by anyone that if all commercial production of automobiles had not been prohibited by the Government as of January 1, 1942 that Timken's production for 1942 might not have greatly exceeded its production for 1941? The propounding of the above questions show without more that it would only be by mere surmise or pure speculation that the answers to any of them could be found.

This court has already held that the Court of Claim is bound to take a case which comes to it under an Act of Congress with the restrictions placed upon it by the legislative act. *DeGroot v. United States*, 5 Wall. 419; 18 L. ed. 700. Again in *Price v. United States*, 174 U. S. 373, 43 L. ed. 1011, this court held:

> "The Government is not liable to suit unless it consents thereto and its liability in suit cannot be extended beyond the plain language of the statute authorizing it. See, among other cases, *Schillinger v. United States*, 155 U. S. 163, 166, in which this court said: 'The United States cannot be sued in their courts without their consent, and in granting such consent Congress has an absolute discretion to specify the cases and contingencies in which the liability of the government is submitted to the courts for judicial determination. Beyond the letter of such consent the courts may not go, no matter how beneficial they may deem or in fact might be their possession of a larger jurisdiction over the liabilities of the government.'"

Alma is justly entitled to the full and perfect equivalent of the property taken, but cannot obtain that under the Royalty Adjustment Act.

As we have shown the Royalty Adjustment Act specifically places upon the Court of Claims the limitation that in determining the so-called "fair and just compensation" it shall take "into account the conditions of wartime production." Instead of Alma being entitled under the "express terms of the statute" to sue for that to which it believes itself to be justly entitled, the Act specifically precludes the Court of Claims awarding Alma its full royalty as provided for by the contract. This court by a long line of decisions has uniformly held that the just compensation provided for by the Fifth Amendment means entire compensation and not one jot or tittle less. There can be no equivalent of 50c but 50c, but by the terms of the Royalty Adjustment Act the Court of Claims may not award Alma the full 50c which Timken owed it but refused to pay, unless it ignores the specific instruction as contained in the language of the Act: "taking into account conditions of wartime production."

As we have heretofore pointed out, the Government has argued that the Acts of 1910 and 1918 are the prototypes of the Royalty Adjustment Act. We have already stated and we reiterate that the Royalty Adjustment Act is the exact antithesis of the 1910-1918 Acts. These acts were not only non-retroactive, but the 1910 Act, as amended in 1918, provided "for the recovery of his (the patent owner's) reasonable and *entire* compensation." The only just compensation under the Fifth Amendment that can be paid to Alma is its entire compensation. The District Court held Alma to be entitled to this. No part of

Alma's right to recover its entire compensation is saved to it by the Act or by the right of action granted by the Act to sue the Government in the Court of Claims. The Royalty Adjustment Act which, by its "express provisions," clearly contemplates the payment of a less amount, fails to satisfy the requirement of just compensation imposed by the Fifth Amendment of the Constitution of the United States. The United States Government can no more take away constitutionally any part of a debt owing under a contract and not pay for it than it can take away land under the right of eminent domain and not pay the full value of the land taken at the time of its taking.

The leading case under the just compensation clause is universally recognized to be *Monogahela Navigation Co. v. United States*, 148 U. S. 312. We quote from this case as follows:

> "The language used in the Fifth Amendment in respect to this matter is happily chosen. The entire amendment is a series of negations, denials of right or power in the government, the last, the one in point here, being, 'Nor shall private property be taken for public use without just compensation.' The noun 'compensation', standing by itself, carries the idea of an equivalent. Thus we speak of damages by way of compensation, or compensatory damages, as distinguished from punitive or exemplary damages, the former being the equivalent for the injury done, and the latter imposed by way of punishment. So that if the adjective 'just' had been omitted, and the provision was simply that property should not be taken without compensation, the natural import of the language would be that the compensation should be the equivalent of the property. And this is made emphatic by the adjective 'just.' There can, in view of the combination of those two words, be no doubt that the compensation must be a full and perfect equivalent for the property taken."

As we have seen under the rule of law established by this court in the *Monongahela case* and consistently followed by the court ever since, just compensation under the Fifth Amendment means entire compensation and nothing less. We have also seen that the Act of 1910, as amended in 1918, also provided in specific terms for the recovery by a patent owner of his "entire compensation" when his invention is used by the Government without license. Therefore, if the 1918 Act is, as the Government contends, the prototype of the Royalty Adjustment Act, the latter should provide for the recovery of the licensor's entire compensation. The Act does no such thing. The Act must be construed by the Court of Claims so that the liability of the Government under the Act cannot be extended beyond the plain language of the statute. *McElrath v. United States*, 102 U. S. 426; *Schillinger v. United States*, 155 U. S. 162; *Price v. United States*, 174 U. S. 373; *Eastern Transportation Co. v. United States*, 272 U. S. 675. The statute must be strictly interpreted in the Court of Claims under the authority of *Klamath and Moadoc Tribes v. United States*, 296 U. S. 244 and *United States v. Sherwood*, 312 U. S. 584.

Because this court is the only court which has any authority over the Third Circuit Court of Appeals and its judgment in this case, the constitutionality of the Royalty Adjustment Act is placed squarely before this court *Coffman v. Breeze Corporations, Inc., et al*, supra.

If Alma (as Question 2 of the court seems to imply) must proceed in the Court of Claims under the Royalty Adjustment Act before this court will rule upon the question of just compensation, may Alma raise that question later on in this court? The Royalty Adjustment

Act, grants a new, but most dubious, "right" which never existed before, namely, the right to sue the United States Government for royalties due to a licensor from a licensee under a patent royalty contract. Until the passage of the Royalty Adjustment Act no such right of action existed. May a licensor aggrieved by the issuance of a Royalty Adjustment Order avail itself of such right, bring a suit against the Government in the Court of Claims to recover its royalties and in such suit attack the entire Act as unconstitutional and void? It is an established rule of law that a suitor may not avail himself of a privilege granted by a legislative Act and at the same time attack the validity of the Act: *Great Falls Mfg. Co. v. Garland*, 124 U. S. 581, 31 L. ed. 527.

As just compensation within the meaning of the Fifth Amendment cannot be secured by Alma in the Court of Claims[10] and as Alma, if it should institute a suit in the Court of Claims, would clearly be deprived of its right (a) to collect the royalty provided for in the contract, (b) to collect the royalties and interest thereon adjudged by the District Court to be due to it, (c) to enforce the judgment of the District Court, and (d) to proceed with its action in the Third Circuit Court of Appeals on the merits of its appeal duly filed therein; question 2 propounded by the court must be answered in the negative. So answered, we submit this court, unless it is to disregard its long line of decisions on the question of just compensation under the Fifth Amendment, must hold the Royalty Adjustment Act to be unconstitutional as a violation of the Fifth Amendment.

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[10] If that court did award Alma the full amount of its royalty as just compensation, the Act would be meaningless.

Wherefore, Petitioner respectfully prays that this cas
be remanded to the Third Circuit Court of Appeals wit
directions to such court to vacate its Order of August 7
1944, herein, as amended October 2, 1944; to proceed t
hear Petitioner's appeal on its merits and for such othe
action as in the opinion of this court is necessary an
proper in the premises.

Respectfully submitted,

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I. JOSEPH FARLEY,
Counsel for Petitioner.

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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1946

Alma Motor Company, *Petitioner,* v. The Timken-Detroit Axle Company, *Respondent,* United States of America, *Intervenor.*	No. 11.

PETITIONER'S SUPPLEMENTAL REPLY BRIEF

As the Constitutionality of the Royalty Adjustment Act is placed squarely before this Court it should be Ruled upon now

The Government's latest, but most belated. move—its motion that this court now, without passing on the constitutionality of the Royalty Adjustment Act, remand the case to the Third Circuit Court of Appeals for action by it on the merits of petitioner Alma's appeal—is, to say the least, a most astounding proposition. Having succeeded in convincing that court its jurisdiction to consider Alma's

appeal was ousted, Government counsel now are urging in effect that the jurisdiction of this court to consider the constitutionality of the Act is ousted because of the failure of the court below to pass on the merits of the appeal.

We submit the above is susceptible of but one interpretation, namely, that the Act as applied in this case is recognized by Government counsel to be so flagrantly unconstitutional that said counsel have gone to the utmost extremes in the hope of forestalling determination by this court of the very pertinent questions which the court propounded to be dealt with on this reargument.

In 1943 when Government counsel was strenuously contending in support of Respondent Timken's Motion to Dismiss Petitioner's Appeal as well as the complaint and counter-claim (R. 53), the Government in its memorandum brief (p. 6) for the United States as amicus curiae, filed in this case in the Circuit Court of Appeals for the Third Circuit, said:

> "Any adjudication by this court upon the merits of the appeal, involving the scope of the patent in suit, might affect the interests of the United States, and would be made upon the basis of a record in a suit in which the United States has not participated, is not a party, and could not be made a party. The rights of Alma Motor Company for plaintiff's use of its invention can, under present circumstances properly be adjudicated only in a suit against the United States, as provided in Section 2 of Public Law No. 768. We respectfully suggest therefore, that the appeal should be dismissed for mootness, since there is no actual controversy before this court within the meaning of the Declaratory Judgment Act."

The Government, after a lapse of three years during which time it not only tacitly acquiesced in the granting of

certiorari by this court but strenuously argued for the correctness of the action taken by the Third Circuit Court of Appeals, now has the effrontery to ask this court to send the case back to the Third Circuit Court of Appeals for the determination of a matter that was squarely before that court as of February 27, 1943, when Alma filed its notice of appeal and again on May 12, 1943 when Alma filed its statements of points to be relied upon (R. 51). This belated move of the Government is made in spite of the fact that ever since Timken on August 25, 1943 filed its motion to dismiss petitioner Alma's appeal "because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768." The United States Government, through its attorneys, has repeatedly and unequivocally argued that Royalty Adjustment Order W-3 ousted the jurisdiction, not only of the Third Circuit Court of Appeals but also negated the judgment of the District Court with respect to all royalties whether they cover the cases designated as the T-79, the T-32, the T-43-G or the T-43-H cases (R. 49-50), thus putting Alma to a tremendous amount of trouble and expense in order to safeguard and enforce Alma's purely private contract rights against Timken.

It must be remembered *that the cases involved in Alma's claim are not solely the T-79 cases but include as well the T-32, the T-43-G and the T-43-H cases* (R. 49-50) upon which last three-mentioned types of cases the District Court ruled that Timken should have paid the royalties to Alma. Payment of such royalties to Alma was prevented by the issuance of Royalty Adjustment Order W-3, which Order, Government's counsel most strongly urged in the court below, ousted the jurisdiction of the Circuit and District Courts and relegated Alma to an action in the Court of Claims. Now it seeks to mend its hold and have

the case remanded to the Third Circuit Court of Appeals for a determination of the very question that was before that court before the Government intervened in the proceedings in that tribunal.

We submit the Government cannot under the rule, enunciated in *Railway Company v. McCarthy*, 96 U. S. 258, now mend its hold and change its position, for as stated by this court in that case:

> "Where a party gives a reason for his conduct and decision touching anything involved in a controversy, he cannot, after litigation has begun, change his ground, and put his conduct upon another and a different consideration. He is not permitted thus to mend his hold."

Since Order W-3 is not directed solely to the T-79 cases but equally to the T-32 and T-43 cases as well, we see no occasion, at this late stage of the proceedings for getting a determination of the question as to whether or not the T-79 cases are dominated by the claims of the Ruggles and Smith patent. Obviously the belated determination of this question would not dispose of the entire question of the constitutionality of the Act as applied in this case. The constitutionality of the Act is still placed squarely before this court by the withholding of all royalties due Alma by Timken on the T-32 and T-43 series of transfer cases as to which the District Court's judgment held Timken owed Alma and should have paid to Alma, and which judgment became final because of Timken's failure to appeal therefrom.

Three years ago when the Government intervened in the proceeding between Timken and Alma (No. 8300 in

the Third Circuit Court of Appeals), the Government in its brief (p. 3-4) for the United States as Intervenor stated:

> "On July 28, 1943, the United States War Department issued 'Royalty Adjustment Order No. W-3' pursuant to the Royalty Adjustment Act of October 31, 1942. That Order directed Timken to pay no royalties whatever to Alma under their license agreement on account of the manufacture, use, sale, or other disposition of any transfer cases for the United States. Alleging that the 'structures here in suit have all been made for the Government,' Timken then moved to dismiss the appeal on the grounds that there was no longer a justiciable controversy under the Declaratory Judgment Act since Section 2 of the Royalty Adjustment Act made the sole remedy of the licensor, if he is aggrieved by an order thereunder, an action against the Government to recover fair and just compensation (see Timken Br. p. 30). By leave of court, the United States filed a memorandum brief as *amicus curiae*, suggesting that if all the transfer cases in suit had been or were being manufactured for the Government, as Timken averred was the fact, an 'actual controversy' between the litigants no longer existed within the meaning of the Declaratory Judgment Act, in view of the issuance of the Royalty Adjustment Order."

The above statement was followed by extensive argument in support of the Government's position that the Act was constitutional and as such the only court that had jurisdiction over the matter was the Court of Claims and not the Third Circuit.

Having convinced the Third Circuit that its jurisdiction was ousted that court ruled (R. 120):

> "Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall

> appear to the Court that a justificiable controversy exists between the parties arising out of the facts set forth in the complaint, except that the court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment *and dismiss the complaint as moot*" (Italics ours).

Now the Government back-tracks and takes the opposite position. This court should condemn such practice as now attempted which is so foreign to accepted and orderly rules of practice and legal procedure and deny the Government's motion to remand.

As respondent Timken relied upon the Royalty Adjustment Act as a defense to escape payment of the royalties it owed Alma, sound principles of judicial administration require that this court proceed to a full determination of the constitutionality of the Act *(Coffman v. Breeze Corporations Inc. et al.* 323 U. S. 316).

Government's Prejudged Assumption of Patent Invalidity

Almost at the very outset of the Government brief we find this totally unwarranted statement (Govt. Br. p. 21):

> "Petitioner now claims that as a result of its license agreement with respondent, the Government must, during wartime, pay royalties for the use of the patented invention, *however invalid the patent may be.*"

Petitioner, Alma, makes no such claim. The true gravemen of Alma's complaint is that the Government cannot constitutionally, under the guise of the exercise of the power of eminent domain, under the war power or any other

power of the Government, interefere directly with private contract rights and seize money adjudged by a Federal District Court to be due Alma by Timken. Nothing could be further from the truth that Petitioner, Alma, "now claims * * * the Government must, during wartime, pay royalties for the use of the patented invention however invalid the patent may be." Petitioner now urges, *as it has always urged,* and as we have more fully pointed out in our Supplemental Brief (pp. 30-32) that the record clearly shows Timken never paid any royalties to Alma and hence did not and could not charge them to the Government. Therefore neither the Government nor the people of the United States have been asked to pay any royalties to Alma or anyone else for the use of the patented invention. And, as we have shown in our Supplemental Brief (pp. 32-35), as Timken by refusing to pay the royalties to Alma assumed the full burden for the payment thereof as a matter of law, there is and can be no public interest in the royalties here involved.

The attitude of the Government that permeates its entire brief is to disregard entirely Timken's obligation to pay its just debt and to obfuscate the self-evident fact that Timken obviously made a profit on every transfer case it sold to the Government. If Timken's production was much greater on account of wartime production, naturally the amount of Timken's profits increased in accordance with the increase in production.

The Government, we submit, improperly seeks to have this court consider this case as if it were solely a controversy between the Government and Alma. It seeks to keep Timken's obligation to pay its honest debt and the profit made by Timken by reason of the license contract entirely out of the picture.

The only record reference to be found anywhere in this case touching on the patent's invalidity appears (R. 73) where an Army Major made the statement "the opinion of the Chief of Ordnance is that the patent is invalid." The Government seizing upon this unsupported statement now boldly asserts that the patent is worthless and argues that "the issue presented is whether Congress may thus outlaw the technical rule of estoppel normally barring a licensee from challenging the validity of a licensor's patent." It cites the cases of *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173 and *Scott Paper Co. v. Marcalus Mfg. Company*, 326 U. S. 249, as outlawing the estoppel rules (G. Br. p. 17).

The *Scott Paper Co. v. Marcalus Mfg. Co.* case, *supra*, upon which the Government so heavily relies is not authority for the Government's contention that a licensee is not estopped to deny the validity of a patent (Govt. br. 12, 35, 36). That case did not even deal with the question of estoppel as between a licensor and licensee but was decided upon the sole ground that the assignor of a patent, who by the way was sued for patent infringement and not for licensed royalties, was making a device that was fully covered by an expired United States Letters Patent. We have no such facts in this case nor any that remotely resemble them.

The *Sola Electric Co. v. Jefferson Electric* case, *supra*, is likewise not authority for the Government's contention that a licensee, as here, is not estopped to deny the validity of a patent. In that case there was a clear violation of the Sherman Anti-Trust Act in the fixing of prices and the court made no ruling whatsoever on the patent's validity. Again we have no parallel of the facts in the case with those of the instant case.

We submit that the Government's unsupported attempt to convince this court that the licensed patent is invalid is wholly without merit and this is particularly so since under the Act that defense is not available unless and until Alma should bring a suit in the Court of Claims against the United States Government.

The irony of the repetitious references in the Government brief to an "invalid" and "worthless" patent, which so obviously seek by innuendo to prejudice this court against the validity of the Ruggles and Smith patent, is emphasized by the effort made in the prior "Brief for the United States" which in an abortive attempt to justify "the opinion of the Chief of Ordnance" sought to lend color to the Government's unsupported assertions of invalidity the inclusion in Appendix C of such brief of the clearly inadmissible letter, dehors the record, written for the purpose of this controversy by Major D. J. Clifford, an assistant of the Detroit Branch of the Ordnance Department to the Chief of Ordnance and dated Dec. 12, 1942. Paragraph 8 of this letter reading as follows:

> "8. Mr. Brown was, in March 1933, stationed at Holabird Quartermaster Depot, Baltimore, Maryland and on March 24, 1933, made and signed a drawing of a new transfer case, a print of which drawing is attached. Shortly after this drawing was made Mr. Brown disclosed it to Mr. Petersen of the Brown-Lipe Division of the Spicer Manufacturing Corporation by which a transfer case embodying Mr. Brown's ideas was built and installed in a White truck which was delivered to Holabird Quartermaster Depot in November, 1933."

which contains the only indication of what the opinion of the Chief of Ordnance was predicated upon is highly enlightening because this same Brown drawing of March 24, 1933 was introduced in the District Court as PX28

(D. R. 61a & 327a).* A large amount of testimony with respect thereto was taken in the District Court wherein this alleged invalidating art was referred to as the Spicer transfer case or prior use (D. R. 40a-42a, 61a-66a, 84a-86a, 88a-92a, 97a, 171a, 193a, 218 a-230a, 248a-254a).

The District Judge fully discussed and disposed of this Spicer use in his opinion (R. 37-38). So this court is now treated to the piteous spectacle of the Government relying on the mere opinion of a single individual—the Chief of Ordnance—apparently based solely on a biased report of a subordinate as overruling the considered opinion, based on duly admitted evidence, of a competent legal tribunal—a Federal Court—which court alone, according to this court, is given the power to pass on the validity of a duly issued United States patent (See Pet. Supp. Brief p. 35-41).

When we consider the equities of this case it is clear that the doctrine of estoppel should apply, for as Judge Kirkpatrick in his opinion (R. 35) stated "five patent lawyers participated in the conference and at least two in drawing the agreement. They understood the rule that estops a licensee," and "As a matter of fact, Timken's lawyers knew more about the prior art than Alma did, an important use having been shown to Alma's counsel, for the first time, only a few hours before the conference."

The District Court in interpreting the license contract found that

> "The provision contained in Clause IV does not permit the licensee to contest the validity of the patent.** This point is settled by the decision of the

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* See footnote P. 43 of "Brief for Petitioner" for index of this citation.

** It also decreed as a matter of law "3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein" (Judgment (R. 49)).

Supreme Court of the (sic) *United States v. Harvey Steel Co.*, 196 U. S. 310" (R. 36).

It is important here to note that this court in the *Harvey Steel Co.* case supra definitely held that the estoppel of a licensee to contest validity operates as fully against the Government as against a private party.

The rule which estops a licensee to attack the validity of a patent under which he is manufacturing is not a mere technicality of the patent law but is founded upon the salutary equitable principles of estoppel to the effect that one may not accept the benefits of a contract and at the same time deny the obligations thereof. It is a matter of common knowledge, and indeed of common sense, that no one ever agrees to pay as royalty any more than a fractional part of the savings effected, or profits expected, from the use of the invention. Ordinarily these savings or profits are in no way affected by the mere fact of the validity or invalidity of the patent, or as this court put it:

> "Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think that the defendants are estopped from alleging that invalidity." *Kinsman et al. v. Parkhurst*, 18 How. 289, 293.

During the trial in the District Court, in a colloquy between Judge Kirkpatrick and counsel for respondent Timken, the latter admitted that the Army wanted the Ruggles and Smith type of transfer cases "because it sold cheaper" while the court summed up the situation by stating:

> "It is a matter of expense and production, simplicity, compactness and various other things" (D. R. 254a).

So the Government and the people of the United States who got the benefit of the savings due to the cheaper patented construction, as well as its other advantages, should as a matter of plain justice be no more entitled to attack the validity of the patent than respondent Timken.

All of the high-sounding phrases which seek to justify the Act as a price-fixing regulation, the absurd new license and frustration theory, the exercise of the power of eminent domain in support of the war power of the sovereign and the cases cited in support of these various theories all conveniently ignore Timken's duty to Alma under the contract.

As the Act is not a proper exercise of eminent domain because it seeks to take the money adjudged by the District Court to be due Alma and can have no bearing on the Government's right to use the physical structure—the subject matter of the contract—which right the Government possessed fully and freely because of the license contract—all of the Government's argument on this subject is futile, first, because the seizure of money is recognized by all the eminent authorities on the subject not to come within the purview of the power of eminent domain; second, because money seized cannot be a taking of private property for public use within the meaning of the Fifth Amendment; third, because in view of the extensive taxing measures adopted by the Government there was neither any necessity nor emergency to justify the Act. Furthermore as admitted by the Government (Govt. Br. pp. 29-30) the reduction of royalties is fully provided for by the Renegotiation Act and finally because as Timken, in refusing to pay Alma the royalties due, therefore could not properly charge, and did not charge them to the Government, Timken thus assumed the full liability to pay its

debt to Alma if it failed to prevail in its Declaratory Judgment action against Alma. There is, therefore, and cannot be any public interest involved in the purely private Alma-Timken controversy or lawsuit. District Judge Kirkpatrick summed up the entire situation, when in his opinion in discussing Timken's contention that the public interest outweighs the estoppel rule, tritely said:

> "* * * I find no circumstances in the present action which requires a consideration of the validity of this patent in the public interest. I am not adjudicating its validity. I am merely holding that this plaintiff may not contest it, and I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here" (R. 36).

Royalty Adjustment Act Invalid Exercise of War Powers

It must be remembered that prior to the execution of the license agreement between Timken and Alma both parties were claiming the same invention that is now covered by the licensed patent. The actions of Timken, who attempted to get the very claims it and the Government now urges to be invalid and who acceded to the validity of the claims by (1) conceding priority, (2) paying $1,500 down and (3) executing the license contract, certainly refutes the baseless statements that the Government now makes throughout its brief that the patent is invalid. The cases which the Government cites as examples of the Federal war powers (Govt. Br. p. 22), have no pertinence to the situation here because in none of such cases was there any *taking* by the Government of any property whatsoever. In fact in the *Bowles v. Willing-*

ham (321 U. S. 503) *case*, cited by the Government, Justice Douglas delivering the opinion of the court said (p. 517):

> "We are not dealing here with a situation which involves a taking of property."

Under the heading "The Act is a Necessary Wartime Measure" (Govt. Br. pp. 23-30) the Government again sets forth many unsupported statements and quotes figures that are entirely outside of the record in this case. Is the Government attempting to have this court decide this case on matters dehors the record? Apparently it realizes it has a very weak case, otherwise why go outside of the record for support. This court should not countenance such unethical and unprofessional conduct.

Under the above-quoted heading (pp. 28-30) the Government states that under the Renegotiation Act excessive royalties may be recaptured by the Government. If we accept such statement at its face value, it belies the entire Government's argument (Govt. Br. 24-31) as to the necessity of the Royalty Adjustment Act, which so outrageously flounts the prohibitions of the Fifth Amendment. The Government's contention (Govt. Br. p. 30) that the "stage money" figure of one-half billion dollars was allegedly saved by the Government through the operation of the Act is based entirely on matters wholly outside of the record in this case.

Pages 30 to 36 of the Government brief again laboriously struggle with the repetitious argument that the licensee is not estopped to challenge the validity of a licensor's patent and urges that Congress may outlaw the *technical rule of estoppel*. We have never heard of the technical rule of estoppel. What we contend for in this case is the equitable rule of estoppel that has long been established,

even before the case of *United States v. Harvey, supra,* and a multitude of decisions of the Federal courts, as well as decisions of the British courts. That equitable rule is based on the fundamental doctrine that one may not reap profit to the detriment of another by the use of the latter's property and then claim that the property is no good. But Congress did not outlaw this rule of equitable estoppel by the Royalty Adjustment Act. Instead it struck down the patent owner's right, for the sole benefit of the Government in an invalid attempt to seize money due Alma—not a proper exercise of the power of eminent domain.

The decision by this court in *Sola Electric Company v. Jefferson Electric Company supra* did not abrogate the time-honored rule of equitable estoppel which prevents a party to a contract who has reaped benefits from the use of property with a corresponding detriment to the other party from asserting that the property is worthless—a rule which has been consistently and uniformly followed and applied in the Federal Courts since *Kinsman v. Parkhurst, supra.* In fact, in the *Sola case, supra,* this court approved the rule in the following language:

> "The circuit court of appeals, in holding that petitioner as a licensee was estopped to challenge the validity of the patent, did not say whether it considered that it was applying a rule of federal or of state law, and it cited no decisions of either the federal or the Illinois courts. Where no price-fixing stipulation was involved in the license contract, this rule of estoppel, which was not questioned by counsel, was applied without discussion in *United States v. Harvey Steel Co.* 196 U. S. 310, 49 L. Ed. 492, 25 S. Ct. 240; cf. *Kinsman v. Parkhurst,* 18 How. (US) 289, 15 L. Ed 385. We need not decide whether in such a case the rule is one of local law, cf. *Dale Tile Mfg. Co. v. Hyatt,* 125 U. S. 46, 53, 54, 31 L. Ed. 683, 686, 687, 8 S. Ct. 756, or whether, if it be regarded as a rule of federal law

> because the construction and application of the patent laws are involved, it was rightly applied in *United States v. Harvey Steel Co.* 196 U. S. 310, 49 L. Ed. 492, 25 S. Ct. 240, supra. For here a different question is presented—whether the doctrine of estoppel as invoked below is so in conflict with the Sherman Act's prohibition of price-fixing that this court may resolve the question even though its conclusion be contrary to that of a state court." *Sola Electric Co. v. Jefferson Electric Co., supra,* at page 175.

That case was decided on the fact that there was a violation of the Sherman Act and not upon the patents validity or invalidity. Here there is no holding of invalidity by any court of competent jurisdiction but an usurpation of the power of the Federal Judiciary by the Act as applied, based solely on the mere opinion of the Chief of Ordnance with no evidence nor finding of record to enable anyone to obtain the slightest hint upon what such opinion was predicated.

In the *Sola case* this court quite correctly held the estoppel rule could not be used to thwart a Federal statute which condemns an act as unlawful.

Here we have no question of any illegality of any act of petitioner Alma nor any question of the patented devices as in the case of *Scott Paper Co. v. Marcalus Mfg. Co., supra,* being exactly the same as that disclosed and claimed in a prior expired patent and which had by mere operation of the controlling patent statutes, which authorized the grant, gone fully and freely into the public domain.

What we have here is an attempt by the Government to legislate vested contract rights of Alma out of existence in order that the Government may seize the money due Alma by Timken—money in which neither the Government

nor the public has any interest, because it was never charged to or paid by the Government to Timken. The Act applied here thus "taking one man's property away and handing it to another" *(Osborn v. Nicholson,* 13 Wall. 654), to the flagrantly unjust enrichment of Timken at Alma's expense while at the same time the Government reaps all the advantages which accrued to Timken by obtaining the right to use freely and fully the devices which it purchased from Timken without any danger of suit under the 1910 or 1918 Acts for unlicensed or infringing use, together with all of the advantages of lower cost, simplicity, etc. noted by District Judge Kirkpatrick as being inherent in the Ruggles and Smith invention (D.R. p. 254a). Added to this the Government also obtained the further advantage of speedy deliveries and, we can assume lower cost price, resulting from the use of "the only sources adequately provided with the equipment and knowledge essential to the expeditious and efficient use of the inventions" (Govt. Br. p. 28); or, in other words, Timken's "know how" gained as the result of over three years' manufacture by Timken under the license prior to our entry into the War.

Before leaving the subject of war powers it must be recognized that "even war power does not remove constitutional limitations safeguarding essential liberties," *Home Building and Loan Association v. Blaisdell,* 290 U. S. 398; *Ex Parte Milligan,* 4 Wall. 2 and the cases cited at pages 22 and 23 of Petitioner's Reply Brief.

So-Called Price-Fixing Regulation

The Government (Br. pp. 37-40) glibly argues that the Royalty Adjustment Act is a price-fixing measure and cites the cases of *Yakus v. United States*, 321 U. S. 414 and *Bowles v. Willingham, supra*, but neither of those cases support the statement that the Royalty Adjustment Act is a price-fixing measure. In neither of those cases was there a *"taking"* by the Government of property, whereas the Act in this case provides that the excess royalties "shall inure to the benefit of the Government" and that the excessive profits shall be paid over to the Treasurer of the United States. We fully covered this subject of alleged price-fixing in our reply brief (pp. 24-26) and our supplemental brief (pp. 18-23). See also the supplemental brief of Amici Curiae (p. 13).

Retroactivity

The argument of the Government (Govt. Br. pp. 41-50) with respect to the application of the Act to pre-enactment royalties is not an answer to the sound argument presented in Petitioner's Supplemental Brief (pp. 9-28) but on the contrary argues that the Government is entitled to all of the royalties from September 12, 1939 (it conveniently omits to furnish this date) to the date of the Act October 31, 1942 (Govt. Br. p. 42) and attempts to rewrite the Royalty Adjustment Act by changing the words "conditions of *wartime* production" to read "National emergency." But when the Act itself is examined and our argument as contained in Petitioner's Supplemental Brief (pp. 23-28) fully considered it is obvious that "National

emergency" has no place in the Royalty Adjustment Act. Perhaps the Government would like to extend the "National emergency" back to include the Chino-Japanese war. Wartime production definitely could not begin until the United States had declared war or war was declared against it.

Nor is there any merit to the contention of the Government that Alma or other patent owners (Govt. Br. p. 51) in 1910 had notice that the United States Government would interfere with patent royalty contracts to the extent of cutting in thereon and taking a part or all of the royalties due a patent licensor. The 1910 Act and its amendment, as we have shown in our previous briefs (brief for Petitioner, pp. 55-56 and Supplemental Brief, p. 36), merely provided a new remedy for a patent owner; was not retroactive; did not interfere with existing contract rights, and took nothing away from a licensor—the antithesis of the Royalty Adjustment Act. A United States citizen in 1910 or thereafter certainly did not have notice that Congress in violation of the United States Constitution would attempt to interfere in private contracts and confiscate patent royalties due thereunder.

There is no Congressional determination, to reach retroactively accrued royalties, in the Royalty Adjustment Act (Petitioner's brief, pp. 11-28) but if there is, as the Government contends (Govt. Br. 52), then the Act as here applied puts a premium upon Timken's refusal to pay its just and honest debt, and the citation by the Government of tax cases (Govt. Br. 54-55) to support this argument is in realty an argument in support of a tax dodger, for if Timken had paid its just debt to Alma the Act most certainly would not apply. We submit that the Govern-

ment's argument in support of the retroactive application of the Act merely serves to emphasize the Act's complete invalidity.

New License Theory

Petitioner's Reply Brief (pp. 2-8) filed at the April 1945 hearing is a complete answer to the Government's new license theory (Govt. Br. 59-72), but at the risk of being repetitious we again point to the language of the Act, which language does not support the new license theory, because the Act plainly does not say so, nor even remotely suggest it. Throughout the Government's brief it stresses, as we have heretofore pointed out, that the petitioner Alma's patent is invalid and gives that as a reason why zero royalties have been awarded. If, therefore, as the Government contends, the patent was invalid, a new license could not be taken because the new license could not be effective until the taking took place at which time also the royalties would become effective. Therefore under the Government theory there was here taken a new license under an invalid patent to pay royalties. Could anything be more fantastically ludicrous? What the Government did in this case was to substitute itself for the licensor insofar as collecting the royalties stipulated in the consensual, license and that is what the Act provides. The Government no more took a new license under the Act than it took the licensor's patent or the patented structures from the licensor, but took all royalties above those stipulated in the Order because such reduction in royalties as provided by the Act "shall inure to the benefit of the Government."

The Frustration Theory

What we have said above with respect to the new license theory applies equally as well to the frustration theory. The license of the parties has always been kept alive and in fact was and is the basis of the Government's claim under the Royalty Adjustment Order. When the Government took over Alma's benefit of the royalties under that contract and ordered those royalties paid over into the Treasury, it substituted itself for the licensor as a recipient of the stipulated license royalties but refused to substitute itself for the licensee as the payer of the royalties. The learned court below following the language of the Act and its purpose found (R. 116-117):

> "What we have here is a taking of private property for public use. The property involved is the patent owner's royalty rights under the license with the manufacturer."

Suit in the Court of Claims

In what appears to be the Government's answer to the court's question 2 the Government (Govt. Br. p. 73) concludes that the "only issue to be adjudicated in the Court of Claims suit is the validity of the patent" and that the Petitioner there "will be entitled to recover the full amount of the stipulated royalties," if the patent is valid. Nothing could be further from the truth and the plain language of the Act. In a suit in the Court of Claims that court would have to be guided by the language and the purpose of the Act (Petitioner's Supplemental Br. 45-48) and if it granted the full amount of the stipulated royalties

the Act of necessity would be a nullity. Section 2 of the Act permits a licensor to "institute suit against the United States in the Court of Claims * * * to recover such sum, if any, * * * which shall constitute fair and just compensation * * * taking into account conditions of wartime production." Consequently if, on the Government's assumption, Alma's patent was found to be valid the language of the Act would require the Court of Claims to scale down the royalty by the "taking into account conditions of wartime production."

Under the 1910 Act as amended all the court had there to determine was "reasonable and entire compensation" in purely patent infringement cases, unaffected by any contract rights involving a licensor's money and unrestricted in its findings on just compensation by "conditions of wartime production." The Royalty Adjustment Act from its very language cannot give licensor his entire and just compensation but must give less in view of "conditions of wartime production."

The argument (Govt. Br. p. 76) that the "only effect of the Act is to substitute the Court of Claims for the District Court" is not supported by the record and the rights of which Alma was deprived (Supplemental Br. pp. 41-42) and as the Act in this case has deprived Alma of those rights and of the money due it under its licensed contract, the remedy which it had before the intervention of the Royalty Adjustment Act is not equalled by the remedy afforded by the latter. The Government's quoted statement (Govt. Br. p. 79) "The particular remedy existing at the date of the (licensed) contract may be altogether abrogated if another *equally effective* for the enforcement of the obligation remains or is substituted for the one taken away" emphasizes petitioner's contention that the Royalty

Adjustment Act affects not the mere remedy but that the Act definitely deprived petitioner of its legal rights.

The Act here is decidedly analogous to that held invalid in *Lynch v. U. S.*, 292 U. S. 571, where this court said:

> "* * * Fourth. The question requiring decision is, therefore, whether in repealing 'all laws granting or pertaining to yearly renewable term insurance' Congress aimed at the right or merely at the remedy. It seems clear that it intended to take away the right; and that Congress did not intend to preserve the right and merely withdraw consent to sue the United States" 292 U. S. 571 at 583.

The Government's brief (p. 80) states "we know of no reason why the Court of Claims would not be free to decide all the questions of law including any challenge to the validity of the statute." We answer this by referring to page 49 of our Supplemental Brief wherein we point out that if we brought an action under the Act to receive its benefits, we could not at the same time attack its validity. *Great Falls Mfg. Co. v. Garland*, 124 U. S. 581.

CONCLUSION

We wish to direct the court's attention to the fact that the major part of the Government's brief on re-argument should be disregarded because it does not attempt to present any direct or succinct arguments in answer to the Questions 1 and 2 formulated by the court, but instead is characterized by generalities and the citation of cases which have no direct bearing on such questions. We, therefore, submit that, in view of the matters presented in this brief, our Supplemental Brief and the Supplemental Brief of Amici Curiae, both questions of the court must be answered in the negative and the Royalty Adjustment Act declared to be unconstitutional.

Respectfully submitted,

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I. JOSEPH FARLEY,
Counsel for Petitioner.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No. [illegible] 11

ALMA MOTOR COMPANY, *Petitioner*,

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*.

RESPONDENT'S BRIEF.

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PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944.

No. 806.

ALMA MOTOR COMPANY, *Petitioner*,

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*.

BRIEF FOR RESPONDENT.

---

1. OPINIONS BELOW.

This case comes before this Court by reason of the granting of a writ of certiorari to review a decision, as amended on denial of rehearing, of the Third Circuit Court of Appeals in the case of *Alma Motor Company, appellant* v. *The Timken-Detroit Axle Company, appellee,* and the United States of America, Intervenor (R. 112-120 and 129 and 130) reported at 144 F. (2d) 714, which case was an appeal from a decision of the District Court of Delaware in a declaratory judgment action entitled *The Timken-Detroit Axle Company, Plaintiff* v. *Alma Motor Company, Defendant* (R. 33-51) reported at 47 Fed. Sup. 582.

2. JURISDICTION.

This is a suit arising under the Declaratory Judgment Act, Judicial Code, Sec. 274-d (28 U. S. C. 400) (R. 2, 8), diversity of citizenship, Judicial Code, Sec. 24 (Par. 1) (28 U. S. C. 41, Par. 1) (R. 2) and under the patent laws of the United States, Judicial Code Sec. 24 (Pars. 1 and 7) (28 U. S. C. 41, Pars. 1 and 7) (R. 8).

The jurisdiction of this Court is invoked under Sec. 240(a) of the Judicial Code as amended by the Act of February 13, 1925 (28 U. S. C. 347).

The date of the judgment which petitioner seeks to have reviewed is August 7, 1944 as amended October 2, 1944 (R. 112-120, 129 and 130).

The writ of certiorari was granted by this Court February 5, 1945 (R. 132).

3. SUPPLEMENT TO STATEMENT OF THE CASE.

Petitioner's statement of this case is correct as far as it goes. However, certain facts, deemed essential by respondent are not clearly stated therein. These facts are:

In its bill for declaratory judgment, respondent asserted that the subject matter of patent No. 2,173,044 involved no invention in view of certain prior public uses of the United States Government of military trucks, having transfer cases, similar to those of patent No. 2,173,044, at Camp Holabird and for many other reasons (R. 6-7). These military vehicles were produced in accordance with specifications and plans of army engineers, and at the hearing before the Administrative Board, that ruled that no royalties should be paid under said patent No. 2,173,044, respondent urged that patentable aspects of the alleged invention, if any, were originated by Government engineers (R. 64).

Judge Kirkpatrick expressly refused to pass on the validity of patent No. 2,173,044 on September 23, 1944, and thus on the issue of originality of the invention, if any, in Camp Holabird engineers or in the prior art because he held respondent estopped to attack the validity of the pat-

ent on the ground of lack of invention in view of its license (R. 34).

The approval of Public Law 768 (R. 56-59) on October 31, 1942 occurred before judgment was entered in the declaratory judgment suit on December 2, 1942, and on December 30, 1942 the Chief of Ordnance issued notice under said law to respondent that no further royalties should be paid in excess of that to be specified in a subsequent order. Timken's right of appeal existed when said law and notice made moot the issues of the declaratory judgment suit, and Timken did not and could not in good faith appeal to the Circuit Court of Appeals from so much of the judgment of December 2, 1942 as was adverse to it and then assert that Public Law 768 made the issues in suit moot. However, petitioner, with notice that royalties would be fixed under Public Law 768, appealed on February 27, 1943, and that respondent was under order of the Government, made pursuant to said law, to pay no further royalties beyond those to be set in a subsequent order.

The latter order was issued on July 28, 1943 by the War Department. It concerned only royalties which "are directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States" (R. 93, 94), or, stated otherwise, royalties which accrued to petitioner under its agreement only because of Government use of transfer cases in military equipment required for war purposes.

The amount of these accrued royalties was not reduced to judgment by the District Court's judgment (par. 6, R. 50 and 51), which was a mere declaration of the rights of the parties. The time for appeal from this declaratory judgment expired March 2, 1943, the notice that the royalties to be paid to Alma were to be set by the War Department was given to both Timken and Alma on December 30, 1942 (R. 93), the time provided in the judgment for appointment of a master to reduce the declaration of rights to a

final and certain sum of money expired December 31, 1942 (R. 50), and War Department Order W-3 providing that no royalties were to be paid to Alma was dated and became effective July 28, 1943 (R. 93).

4. SUMMARY OF ARGUMENT.

Point I. Public Law 768 is purely a war measure and should be considered as such and does not constitute a "taking" of property.

Public Law 768, Sec. 7 (R. 56 to 59).
Bowles v. *Willingham*, 321 U. S. 503.

Point II. Public Law 768 expressly provides the due process of law required by the Constitution, and the fact that a hearing by an administrative board prior to Court action and the substitution of a special court instead of the usual Federal Courts as provided for is immaterial.

Public Law 768, Secs. 1 and 2 (R. 56, 57).
Crozier v. *Krupp*, 224 U. S. 307.
Richmond Screw Anchor Co. v. *United States*, 275 U. S. 331.
United States v. *Cohen Grocery Co.*, 255 U. S. 81.
Yakus v. *United States*, 321 U. S. 414.

Point III. Congress had the constitutional power to enact Public Law 768 as a war measure.

Norman v. *Baltimore and Ohio R. Co.*, 294 U. S. 240.
Hirabayashi v. *United States*, 320 U. S. 81, 93.
Yakus v. *United States*, 321 U. S. 414.
Bowles v. *Willingham*, 321 U. S. 503.

Point IV. The Constitution does not require the notice and hearing provided by Sec. 1 of Public Law 768 and no violation of due process can be properly based on alleged defects in the notice or in the scope of the hearing.

Public Law 768, Secs. 1 and 2 (R. 56, 57).
Ochoa v. *Hernandez y Morales*, 230 U. S. 139.

Point V. Petitioner is not a judgment creditor and the District Court judgment does not finally dispose of the question of amount of royalty so as to warrant petitioner's claim of a vested right in any portion of the royalties held to have been payable.

Public Law 768 (R. 56 to 59).
Order W-3 (R. 87, 88).
Bouvier's Law Dictionary, Rawles 3rd Revision, Vol 1, Page 726.
Chalmers v. *Surprise*, 70 Ind. A. 646, 123 N. E. 841, 844.
MacKenzie v. *U. S.*, 109 F. (2d) 540.
Downs v. *Blount*, 170 Fed. 15 (C. C. A. 5) cer. den. 226 U. S. 609.

5. ARGUMENT.

Point I. Public Law 768 is purely a war measure and should be considered only as such.

The title of the Act known as Public Law 768 is "To provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war and for other purposes." At the outset of the enacting portion of the Act, the purpose is stated to be to aid in the successful prosecution of the war. Sec. 2 provides that conditions of war-time production shall be taken into account by the Court of Claims in determining what royalties shall constitute fair and just compensation. Sec. 7 provides, in effect, that the Act shall remain in force only during the continuance of the present war and for six months after its termination.

It thus seems very clear that the Act is a war measure. We therefore respectfully suggest that all arguments respecting the constitutionality of said Act, that overlook or disregard the fact that the law is a war measure, are irrelevant.

The constitutional question presented by this case, as respondent sees it, is thus of quite narrow scope. Peti-

tioner has gone far afield in its attack on the constitutionality of the Act, perhaps because, as we see it, the Circuit Court of Appeals unnecessarily went beyond a holding that the Act was a proper exercise of the war powers of Congress and discussed the power of eminent domain. For under the decision of this Honorable Court in *Bowles* v. *Willingham*, 321 U. S. 503, it was held with respect to the fixing of rates of rent which are closely analogous to royalties that (P. 634):

> "We are not dealing here with a situation that involves a 'taking' of property."

We suggest that the force, if any, in petitioner's contentions is due to its attacks on implications by the Court of Appeals for the Third Circuit in its decision that the Act under consideration is valid on grounds other than purely as a war measure. On its face it is merely a war act. We believe that the points that petitioner raises, that overlook or disregard the true purpose of the Act as a war measure, to adjust the costs of the war effort and prevent unreasonable and inequitable enrichment of an individual at the expense of a War burdened public, merit no serious consideration by respondent in this brief because, as we see it, they are irrelevant. Surely the question of whether an Act paralleling Public Law 768, but enacted for a purpose other than to aid in the successful prosecution of the war, is a moot question in this case.

We suggest that it is of utmost significance that petitioner substantially disregards the fact, in all its contentions and assertions, that Public Law 768 is a war measure. The Court of Appeals properly sustained its validity as such.

Point II. Public Law 768 expressly provides the due process of law required by the Constitution.

Sec. 2 of Public Law 768 provides that any licensor aggrieved by any order issued pursuant to section 1 of the Act may institute suit against the United States in the

Court of Claims. We submit that the right to sue the United States, thus accorded, constitutes due process under the Fifth Amendment to the Constitution. For similar provisions in earlier laws permitting claimants, claiming compensation for the use of patented inventions by the United States, to sue in the Court of Claims, were held not to deprive the patentees, or those standing in their place, of constitutional rights in *Crozier* v. *Krupp*, 224 U. S. 307; and *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

Accordingly, conceding that the existence of a state of war does not suspend the operation of the Fifth Amendment, nor relieve Congress of the limitations imposed thereby, as was held by this Court in *United States* v. *Cohen Grocery Co.*, 255 U. S. 81, it seems clear that in the present case there has been no denial of due process under said amendment.

Petitioner complains that he has been relegated to another Court after jurisdiction of this case had been acquired by Courts established under the Constitution. So was complainant in *Crozier* v. *Krupp*, 224 U. S. 307. No denial of due process is involved in such relegation, if any such denial can properly be said to result from the operation of Public Law 768.

We suggest that petitioner is in error in insistently attributing the dismissal of his appeal by the Circuit Court of Appeals to Royalty Adjustment Order No. W-3, issued, as asserted, by an administrative board of the executive department. For it is the Act itself, regularly passed by the Congress of the United States and approved by the President, which has had the effect incorrectly attributed to Order W-3, Sec. 1 of the Act providing:

> "The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract, or otherwise, but such licensor's sole and exclusive remedy,

except as to the recovery of royalties fixed in said order, shall be as provided in Section 2 hereof".

Section 2 provides that suit by any licensor aggrieved by an Order, such as W-3, may be instituted

"* * * against the United States in the Court of Claims, or in the District Courts of the United States insofar as such Courts may have concurrent jurisdiction with the Court of Claims, * * *".

Furthermore we submit that it is settled by *Yakus* v. *United States*, 321 U. S. 414, that the restriction of judicial review of an administrative determination to a single special court does not offend against due process. And in any event there is no merit at all in petitioner's contention that hearing must precede the taking in due process. For as also held by this Court in *Yakus* v. *United States*, 321 U. S. 414 when justified by compelling public interest the legislature may authorize summary action by an administrative agency, subject to later judicial review of its validity.

We accordingly can see no substantial basis for petitioner's assertions that there has been a denial of due process regardless of the fact that the Act is a war measure.

Point III. Congress had the constitutional power to enact Public Law 768 as a war measure.

The Court of Appeals held that the subject matter of Public Law 768 is clearly within the war powers of Congress, because the purpose of the Act is to secure the necessary materials to wage war at reasonable prices. It is significant, we again suggest, that petitioner's criticisms of the decision of the Court of Appeals are not directed against the holding of said Court that the Act is constitutional under the war powers. Yet any right to royalties touched by the Act arises directly out of the war. The royalties in this case reached large sums only because of

the gigantic need for materials to fight the war. This need is the creature of the war. The Act is thus entirely concerned with royalties which, but for the war, no one would or could have claimed to be due him. With these considerations in mind, the character of the Act as a true war measure and the lack of any claim of an appropriation or taking of a right having a peace time value becomes very apparent.

In this case the royalties claimed by petitioner were a windfall to it created by the war. Petitioner, in effect, asserts a vested right to swollen war royalties under a contract, made in times of peace by parties who contemplated only a small peace time production. We suggest that petitioner's assertions are tantamount to a claim that it has a constitutional right to reap large royalty returns arising directly out of the war, or at a time when great sacrifices are asked, and even legally required, of all. Surely an Act of Congress directed against windfalls of the character here involved constitutes only a reasonable protection of the public interest rather than, as petitioner asserts, a taking of vested property without due process of law.

The contract rights claimed by petitioner to have been appropriated are of the nature of those asserted by complainant in *Norman* v. *Baltimore and Ohio R. Co.*, 294 U. S. 240, which held valid the repeal of the gold clause of a bond, which constitutes a private contract.

Petitioner's apparent contention that alleged lack of necessity of the taking of the money involved renders the Act and the order unconstitutional even under the war power is wholly without merit. As this Court said in *Hirabayashi* v. *United States*, 320 U. S. 93:

> "The war power of the national government is 'the power to wage war successfully.' See Charles Evans Hughes, War Powers Under the Constitution, 42 ABA Rep. 232, 238. It extends to every matter and activity so related to war as substantially to affect its conduct and progress. The power is not restricted to the win-

ning of victories in the field and the repulse of enemy forces. It embraces every phase of the national defense, including the protection of war materials and the members of the armed forces from injury and from the dangers which attend the rise, prosecution and progress of war. Prize Cases, 2 Black (U. S.) 635, 17 L ed. 459, supra; Miller v. United States (Page v. United States, 11 Wall. (U. S.) 268, 303-314, 20 L ed. 135, 143-147; Stewart v. Kahn (Stewart v. Bloom), 11 Wall. (U. S.) 493, 506, 507, 20 L ed. 176, 179; Selective Draft Law Cases (Arver v. United States), 245 U. S. 366, 62 L ed. 352, 38 S. Ct. 159, LRA 1918C 361, Ann. Cas. 1918B 856; McKinley v. United States, 249 U. S. 397, 63 L ed. 668, 39 S. Ct. 324; United States v. Macintosh, 283 U. S. 605, 622, 623, 75 L ed. 1302, 1309, 1310, 51 S. Ct. 570. Since the Constitution commits to the Executive and to Congress the exercise of the war power in all the vicissitudes and conditions of warfare, it has necessarily given them wide scope for the exercise of judgment and discretion in determining the nature and extent of the threatened injury or danger and in the selection of the means for resisting it. Ex parte Quirin, supra (317 U. S. 28, 29, ante, 12, 13, 63 S. Ct. 2); cf. Prize Cases, supra (2 Black (U. S.) 670, 17 L ed. 477); Martin v. Mott, 12 Wheat. (U. S.) 19, 26, 6 L ed. 537, 540. Where, as they did here, the conditions call for the exercise of judgment and discretion and for the choice of means by those branches of the Government on which the Constitution has placed the responsibility of war-making, it is not for any court to sit in review of the wisdom of their action or substitute its judgment for theirs."

The war powers of Congress are exhaustively discussed by this Court in *Hirabayashi* v. *United States*, 320 U. S. 81, *Bowles* v. *Willingham*, 321 U. S. 503, and *Yakus* v. *United States*, 321 U. S. 414, referred to by the Court of Appeals in sustaining Public Law 768 as a war measure. As we see it, the Act is so clearly within the war powers of Congress as outlined in the latter cases, that further discussion by respondent appears superfluous.

Point IV. The Constitution does not require the notice and hearing provided by Sec. 1 of Public Law 768 and no violation of due process can be properly based on alleged defects in the notice or in the scope of the hearing.

Respondent suggests that, since Sec. 2 of Public Law 768 specifically provides a procedure under which petitioner can secure just compensation in the Court of Claims in which due legal process is followed in the adjudication of a claimant's rights, the provision in Sec. 1 of said Law for a preliminary notice and hearing was in no correct legal sense necessary to the validity of the Law under the Constitution.

Due process as applied to property rights inhibits the taking of property contrary to settled usages and modes of procedure and without notice and opportunity for a hearing (*Ochoa* v. *Hernandez y Morales*, 230 U. S. 139). Surely proceedings in the Court of Claims follow settled usages and modes of procedure, and Public Law 768 thus provides for due process in securing just compensation.

Such being the case, the provisions for notice and for hearing in Sec. 1 of the Act cannot be correctly said to have been necessary in order that said Act be constitutional. The notice and hearing under Sec. 1 provided an opportunity for an amicable adjustment between the Government and petitioner. Whatever the outcome of proceedings under Sec. 1 of the Act, petitioner could not be, and was not, deprived of its rights under Sec. 2 of the Act.

We suggest therefore that the Court of Appeals correctly found that the hearing provided by Sec. 1 of the Act was not constitutionally required. Such being the case it is difficult to see any substantial basis for any contention that constitutional rights were invaded by proceedings at, or leading up to, a hearing that was not even constitutionally required to be held.

Respondent does not mean to imply by what has just been said that it believes that anything transpired at the hearing, or that the notice thereof was defective, if the hearing before the Administrative Board had been such as

required to protect the property rights of petitioner under the Constitution. It conceives petitioner's objections to be legally without substantial basis.

Point V. Petitioner is not a judgment creditor and the District Court judgment does not finally dispose of the question of amount of royalty so as to warrant petitioner's claim of a vested right in any portion of the royalties held to have been payable.

Due to the nature of the judgment entered by the District Court, see particularly paragraph 6 of the judgment (R. 50, 51) it is clear that the judgment entered December 2, 1942 was merely declaratory and interlocutory and left for future determination the amount of royalty to be paid. Before the determination of the amount of royalty to be paid to petitioner was made and before the period of appeal from the District Court judgment had expired, Public Law 768 was made applicable to the controversy by the notice of December 30, 1942 (R. 53, 106). It follows, therefore, that the public interest, which respondent from the inception of this litigation urged as a superior equity to personal estoppel by agreement, was by Congressional edict made the determining factor on the question of petitioner's contractual rights and of the quantum of petitioner's prospective compensation. Petitioner, accordingly, had never reached the status of a judgment creditor, a status requiring a final judgment for a sum certain capable of execution, see Bouvier's Law Dictionary, Rawles 3rd Revision, Vol., page 726, *Chalmers* v. *Surprise*, 70 Ind. A. 646, 123 N. E. 841, 844 and *MacKenzie* v. *U. S.*, 109 F. (2d) 540, nor had petitioner acquired a vested right to any portion of the royalties involved here, that is, "some right or interest in property that has become fixed and established and is no longer open to doubt or controversy" (see *Downs* v. *Blount*, 170 Fed. 15 (C. C. A. 5), cer. den. 226 U. S. 609), at the time Public Law 768 became effective in this matter.

Accordingly, even if the question of whether petitioner was a judgment creditor or held a vested interest in even a portion of the royalties held to be payable by the District Court judgment were pertinent to a consideration of the constitutionality of Congressional war powers as incorporated in Public Law 768, petitioner is not and never has been in a position to urge these points. For, at the time Public Law 768 became applicable to this controversy and made it moot, the appeal limit had not expired, the quantum of damage had not been determined and no part of the District Court's judgment had even become final so as to entitle petitioner to execution on the judgment. Respondent's failure to file a useless appeal on issues made moot by application of Public Law 768 certainly vested no rights in petitioner.

6. CONCLUSION.

For the above reasons respondent respectfully submits that the Court of Appeals correctly disposed of this case on its motion to dismiss petitioner's appeal; that if error there be in the decision of the Court of Appeals it is only in certain immaterial reasons given for its action; and that the Court of Appeals amply justified its disposition of the case aside from said immaterial reasons.

An affirmance of the action of the Court of Appeals in dismissing petitioner's appeal is accordingly asked and it is respectfully requested that the Court of Appeals be instructed to enter a mandate vacating the District Court's judgment and dismissing the action on the ground that Public Law 768 renders the issues moot.

Respectfully submitted,

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JAMES A. HOFFMAN,
J. MATTHEWS NEALE,
STRAUCH & HOFFMAN,
Of Counsel.

FILE COPY

IN THE

Supreme Court of the United States

OCTOBER TERM, 1946

No. 11.

ALMA MOTOR COMPANY, *Petitioner*,

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*.

RESPONDENT'S BRIEF ON REARGUMENT.

WILLIAM A. STRAUCH,
Counsel for Respondent.

J. MATTHEWS NEALE,
STRAUCH & HOFFMAN,
Of Counsel for Respondent.

PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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RESPONDENT'S BRIEF ON REARGUMENT.

OPINIONS BELOW.

The opinion of the District Court of the United States for the District of Delaware (R. 33-43) is reported in 47 F. Supp. 582. The opinion of the United States Circuit Court of Appeals for the Third Circuit (R. 112-120) is reported in 144 F. 2d 714.

JURISDICTION AND PROCEEDINGS IN THIS COURT.

On January 2, 1945 petitioner filed its petition for certiorari in this court basing the jurisdiction of this court upon Section 240(a) of the Judicial Code, as amended by the Act of February 13, 1925.

In due course petitioner's brief, respondent's brief, the brief for the United States as intervenor, the brief of Roscoe A. Coffman Amicae Curiae and petitioner's reply brief were filed and on April 24 and 25, 1945 oral argument was had in this court, counsel for petitioner, counsel for the United States and counsel for respondent being heard in the order listed. On May 21, 1945, this Honorable Court entered its order restoring the case to the docket for re-argument on the questions stated below.

THE QUESTIONS PRESENTED.

1. Whether the Royalty Adjustment Act, 56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96, is constitutional under the Fifth Amendment to the Constitution as applied to royalties due from respondent, The Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold and delivered to the Government of the United States (a) before the enactment of the Act and (b) before the promulgation of the departmental Royalty Adjustment Order W-3.

2. Whether Section 2 of the Royalty Adjustment Act, 56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96, authorizing a suit to be brought in the Court of Claims or in a District Court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, The Timken-Detroit Axle Company.

STATUTES INVOLVED.

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96), known as the Royalty Adjustment Act, is set forth in Appendix A, pp. 29-32. The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68), is set forth in Appendix B, pp. 33. The applicable patent statutes, Revised Statute 4893, Act of July 8, 1870, C. 230, § 31, 16 Stat. 202,

35 U. S. C. Sec. 36; Revised Statute 4884, Act of July 8, 1870, C. 230, § 22, 16 Stat. 201, 35 U. S. C. Sec. 40; and the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68 are set forth in Appendix C, pp. 34-35.

STATEMENT.

Petitioner, Alma Motor Company, is the owner of United States Patent 2,173,044 issued to it on September 12, 1939 as the assignee of Ruggles and Smith and respondent, The Timken-Detroit Axle Company, is a licensee of petitioner under an agreement dated September 12, 1939 and providing for a royalty ranging from fifty cents to $1.50 per transfer case (R. 11, 88-90). A transfer case is an auxiliary transmission for automotive vehicles (R. 88) and respondent's production and sale of transfer cases covered by the patent in suit has been only to or for the use of the War Department (R. 60).

Proceedings in District Court.

On January 23, 1941, respondent brought this action against petitioner under the Federal Declaratory Judgment Act[1] in the District Court of the United States for the District of Delaware to declare the patent invalid and the license agreement inapplicable to certain transfer cases manufactured by respondent (R. 2-9, 16-17). Petitioner filed an answer and a counterclaim for royalties alleged to be due from respondent under the license agreement (R. 9-13, 17-18). On September 23, 1942, the district court rendered its opinion (R. 33-43), and on December 2, 1942, entered a judgment (R. 49-51), holding that respondent as a licensee was estopped to question the patent's validity (Par. 3, R. 49); that certain of the transfer cases in question were dominated by the patent and thus subject to royalties under the license (Par. 4, R. 49-50); and that the

[1] Judicial Code, § 274d (28 U. S. C. § 400).

remainder were outside the patent and hence not subject to royalties (Par. 5, R. 50).

On February 27, 1943, petitioner appealed to the court below from Paragraph 5 of the judgment (R. 51), which had held certain transfer cases to be outside the patent. Respondent did not appeal.

Royalty Adjustment Proceedings.

The Royalty Adjustment Act became law on October 31, 1942, about three years after issuance of the patent and about one year and nine months after institution of this litigation. It provides that whenever a patented or unpatented invention is "manufactured, used (or) sold * * * for the United States," under a license stipulating for the payment of royalties "believed to be unreasonable or excessive" by the head of the Government agency concerned, he "shall give written notice of such fact to the licensor and to the licensee." It provides that within a reasonable time thereafter the head of the agency "shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production * * * ." (Sec. 1.) The Act directs the licensee, after the effective date of the notice, not to "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use (or) sale" (Sec. 1). Section 7 makes the Act applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "*have not been paid to the licensor prior to the effective date of the notice**," as well as to royalties accruing upon all articles delivered after such effective date. By Section 4 any reduction in royalties authorized by the Act is to "inure to the benefit of the Government by way of a corresponding reduction in

* Emphasis ours.

the contract price to be paid * * * or by way of refund if already paid to the licensee."[2]

On December 30, 1942, pursuant to Section 1 of the Royalty Adjustment Act, the War Department served written notice upon petitioner and respondent that the royalties called for by the license agreement between them and "now being paid by the United States" are "believed to be unreasonable or excessive;" that an order fixing the rate or amount of royalty deemed fair and just would be issued within a reasonable time; that the licensor and the licensee could, upon request, "present in writing or in person any facts or circumstances which may * * * have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act;"[3] and that until an order is issued "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States" (R. 106-107). On February 8, 1943, upon petitioner's request (R. 107-108), petitioner and respondent were afforded an opportunity to present before a War Department Examining Board "facts and circumstances" bearing upon the royalty to be fixed under the Act (R. 61-86).

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93-96). That Order recited that royalties payable by respondent to petitioner under the license agreement are "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the

[2] The Royalty Adjustment Act was summarized by this Court in *Coffman* v. *Breeze Corporations, Inc.*, 323 U. S. 316, 319-320.

[3] Section 1 of the Act provides that "the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation."

United States" of the alleged invention covered by the patent; that such royalties were "believed to be unreasonable or excessive taking into account the conditions of wartime production" (R. 93-94); and that the "fair and just" royalty under the circumstances was zero (R. 94, 96).[4] The order then directed respondent to pay no royalties whatever to petitioner under any license agreement "in respect of any supplies, equipment or materials delivered to or for the War Department" (R. 94-95); to pay to the United States any such royalties which had accrued or were to accrue on deliveries to or for the War Department and which had *not been paid to petitioner prior to the notice*[5] (R. 95); and to reduce the contract price of articles to the War Department or its contractors or subcontractors "to the extent necessary to give the War Department the full benefit of the (ordered) reduction in royalty rates" (R. 95).

Proceedings in the Court Below.

After Royalty Adjustment Order No. W-3 was issued, respondent on August 25, 1943, filed a motion to dismiss the appeal and remand the cause to the district court (R. 53-55). Asserting that respondent "has manufactured and sold transfer cases coming within the (license) agreement * * * only to or for the use of the War Department," the motion alleged that the court's jurisdiction had been withdrawn by the provision in the Royalty Adjustment Act depriving the licensor of any remedy against the licensee for any royalties in excess of those permitted by the Order and making the licensor's exclusive remedy" for such royalties a suit against the United States for "fair and just compensation" (Secs. 1, 2). By leave of court (R. 96-98), the United States filed a memorandum brief as *amicus*

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[4] This was based upon the belief of the War Department officials that the patent was invalid (R. 73).

[5] Emphasis ours.

curiae on November 15, 1943, contending that if all the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States," as the affidavit supporting respondent's motion averred (R. 60), so that the royalties due thereon were "directly or indirectly charged or chargeable to the United States" (Royalty Adjustment Act, Sec. 7), then an "actual controversy" between the litigants no longer existed under the Declaratory Judgment Act, in view of the Royalty Adjustment Act and Order issued thereunder. The brief suggested that the court below should either dismiss the appeal or suspend action thereon until an actual controversy again arises.[5]

On December 6, 1943, petitioner filed a "Petition To Review and Vacate Royalty Adjustment Order No. W-3" on the ground that the Order and the underlying Act were unconstitutional (R. 98-103). Upon certification by the court below that the constitutionality of the Act has been questioned, the United States intervened under the Act of August 24, 1937 (28 U. S. C. § 401) for the purpose of supporting the constitutionality of the Act and Order (R. 110-111, 113).

After this issue was briefed and argued, the court below rendered its opinion on August 7, 1944 (R. 112-120), holding the Act and Order valid as a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120); and concluding that the Order's direction to pay no royalties whatever to petitioner rendered the instant suit moot (R. 113). The court accordingly directed the following disposition of the case (R. 120):

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear

[5] The brief *amicus* is not in the record but can be made available to this Court upon request. The Government's position as *amicus* is also set forth in its motion for leave to file a brief (R. 96-97).

> to the Court that a justiciable controversy again[6] exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

The court also dismissed the "Petition To Review and Vacate Royalty Adjustment Order No. W-3" (R. 111-112) for want of jurisdiction (R. 119). On October 2, 1944, a petition for rehearing was denied (R. 130).

SUMMARY OF ARGUMENT.

I.

The patent in suit, numbered 2,173,044, was granted pursuant to Revised Statute 4893, Act of July 8, 1870, C. 230, § 31, 16 Stat. 202, 35 U. S. C. Sec. 36 and Revised Statute 4884, Act of July 8, 1870, C. 230, § 22, 16 Stat. 201, 35 U. S. C. Sec. 40. As a result thereof petitioner acquired the exclusive right to make, use, and vend the alleged invention or discovery of patent 2,173,044 subject to the Government's right to have any invention or discovery disclosed, manufactured or used by or for the United States as provided by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68 and subject, like all other property, to the Constitutional power of the Government under Article I, Sec. 8 to wage war, *Block* v. *Hirsch*, 256 U. S. 135; *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253. Cf. *The Charles River Bridge* v. *The Warren Bridge et al.*, 11 Peters 420, *Home Building and Loan Association* v. *Blaisdell et al.*, 290 U. S. 398, and *Wood* v. *Lovett*, 313 U. S. 362.

Being subject to the Constitutional powers of the Government, the exercise of the Constitutional war powers in derogation of a private contract relating to property, in this case patent property, does not constitute a retroactive

[6] The word "again" was deleted by an order of October 2, 1944, amending the court's opinion (R. 129-130).

impairment of a contract obligation but is a legal and proper exercise of the Government's reserved Constitutional power to protect its citizens by effective use of such power, *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253; *Block* v. *Hirsch*, 256 U. S. 135; *Norman* v. *Baltimore & O. R. Co.*, 294 U. S. 240, *The Union Bridge Co.* v. *United States*, 204 U. S. 364; *The Charles River Bridge* v. *The Warren Bridge et al.*, 11 Peters 420; *Manigault* v. *Springs*, 199 U. S. 473; *Louisville and N. R. Co.* v. *Mottley*, 219 U. S. 467; *Stephenson* v. *Binford*, 287 U. S. 251; *Home Building and Loan Association* v. *Blaisdell*, 290 U. S. 398; and *Bowles* v. *Willingham*, 321 U. S. 503. Having such sovereign powers, it is submitted, that private contracts cannot destroy these powers, *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253; *Norman* v. *Baltimore & O. R. Co.*, 294 U. S. 240; *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88.

Since Congress under its war power can modify or abrogate the patent grant itself, and as a matter of fact did modify it in 1910 and 1918 as shown by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68, it has the power to regulate contracts based on such patent rights as provided by the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III §§ 89-96) where such contracts have the effect of impeding the war effort, for example by increasing costs, to the same extent as it has the power to regulate contract prices relating to other property in such circumstances *Block* v. *Hirsch*, 232 U. S. 261; *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253.

The fact that the Royalty Adjustment Act has a retroactive effect does not cause the Act to be unconstitutional and beyond the power of Congress, *Billings* v. *United States*, 232 U. S. 261.

II.

Assuming arguendo that exercise of the Government's reserved Constitutional war powers in the manner provided by the Royalty Adjustment Act is unconstitutional insofar as it affects a contractor's right to money accrued and payable prior to the effective date of the Act, it is submitted that the Act becomes a part of the contract on the effective date of the Act and is constitutional insofar as it affects royalties accruing after the effective date of the Act. It is immaterial that the official application of the Act and the extent to which a contracting party's rights are affected is provisionally determined by subsequent issuance of an administrative notice, such as the notice of December 30, 1942 (R. 106-107), or an administrative order, such as Royalty Adjustment Order W-3 (R. 93-96) since such notice or order is no different in principle from a provision of an Act which effects a retroactive result and was upheld in *Billings* v. *United States*, 232 U. S. 261.

III.

(a) Irrespective of its retroacitve aspects, the Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, § 90) affords a licensor fair and just compensation for the Government's use of his licensed invention. It, therefore, is submitted that it is immaterial whether the Royalty Adjustment Act be considered a taking of the invention or impairment or taking of the license contract, for the Act itself gives a licensor of a patent the right to sue in the Court of Claims for "fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the *licensed invention** for the United States taking into account the conditions of wartime production." Act of October 31, 1942, Sec. 2, 36 Stat. 1013, 35 U. S. C., Supp III, § 90. This specification of "licensed invention", we submit, shows that Congress intended to place the Gov-

* Emphasis ours.

ernment in the same position to purchase patented devices from licensees under patents as it was to purchase from others under the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C., Sec. 68.

The fact that the Royalty Adjustment Act specifically gives the Government the right to attack validity is of no consequence since the public interest here involved was sufficient to entitle the licensee to such defense, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88. The further fact that full compensation cannot be secured except by Court action subsequent to the exercise of the Government's sovereign rights is likewise immaterial since the Constitution merely requires a judicial review even where the necessity of compensation exists, *Crozier* v. *Krupp*, 224 U. S. 290; *Yakus* v. *United States*, 321 U. S. 414.

(b) Even though the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96) effects a taking of the contract or an invention under the sovereign power, the Act is constitutional since it provides the licensor fair and just compensation in view of the lack of an effective estoppel as to validity, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88, and gives the licensor the exact equivalent of what is taken, namely a right of action for manufacture and use of the licensed invention, *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

ARGUMENT.

Point 1. The Royalty Adjustment Act is Constitutional as applied to royalties due from Respondent The Timken-Detroit Axle Company to Petitioner for patented devices manufactured, sold and delivered to the Government before the date of approval of the Act.

The title of the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, § 90) is "An Act to provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes." At the outset of the enacting portion of the Act, the purpose is stated to be to aid in the successful prosecution of the war. Section 2 provides that conditions of wartime production shall be taken into account by the Court of Claims in determining what royalties shall constitute fair and just compensation. Section 7 provides, in effect, that the Act shall remain in force only during continuance of the present war and for six months after its termination. It thus seems very clear that the Royalty Adjustment Act is a temporary war measure.

The transfer cases on which royalties are sought by petitioner are all military equipment, which prior to the passage of the Act involved had been purchased for military use by the Government in contemplation of, preparation for, and military use during the War.

The patent in suit was granted pursuant to Revised Stat. 4893, Act of July 8, 1870, C. 230, § 31, 16 Stat. 202, 35 U. S. C. Sec. 36 and Revised Stat. 4884, Act of July 8, 1870, C. 230, § 22, 16 Stat. 201, 35 U. S. C. Sec. 40. Under these statutes the patentee acquires the exclusive right to make, use and sell the alleged invention or discovery of his patent subject, we submit, to the Government's right to have his invention or discovery manufactured or used by or for the United States as provided by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68 and subject to the constitutional

power of the Government under Article 1, Sec. 8 of the Constitution providing for waging war. That private property and private rights are subject to the war powers of Congress, was definitely decided by this Court in the case of *Block* v. *Hirsch*, 256 U. S. 135, wherein Mr. Justice Holmes in upholding the rent control Act of October 22, 1919, Chap. 80, Title 2, § 109 against the contention that rental contracts relating to land were not clothed with a public interest and therefore not subject to control under a valid exercise of the war powers said (page 155):

> "The general proposition to be maintained is that circumstances have clothed the letting of buildings in the District of Columbia with a public interest so great as to justify regulation by law. Plainly, circumstances may so change in time or so differ in space as to clothe with such an interest what at other times or in other places would be a matter of purely private concern. It is enough to refer to the decisions as to insurance, in German Alliance Ins. Co. v. Lewis, 293 U. S. 389, 58 L. Ed. 1011, L. R. A. 1915 C, 1189, 34 Sup. Ct. Rep. 612; irrigation, in Clark v. Nash, 198 U. S. 361, 49 L. Ed. 1083, 25 Sup. Ct. Rep. 676, 4 Ann. Cas. 1171; and mining, in Strickley v. Highland Boy Gold Min. Co., 200 U. S. 527, 50 L. Ed. 581, 26 Sup. Ct. Rep. 301, 4 Ann. Cas. 1174. They sufficiently illustrate what hardly would be denied. They illustrate also that the use by the public generally of each specific thing affected cannot be made the test of public interest (Mt. Vernon-Woodberry Cotton Duck Co. v. Alabama Interstate Power Co., 240 U. S. 30, 32, 60 L. Ed. 507, 511, 36 Sup. Ct. Rep. 234), and that the public interest may extend to the use of land. They dispel the notion that what in its immediate aspect may be only a private transaction may not be raised by its class or character to a public affair. See also Noble State Bank v. Haskell, 219 U. S. 104, 110, 111, 55 L. Ed. 112, 116, 117, 32 L. R. A. (N. S.) 1062, 31 Sup. Ct. Rep. 186, Ann. Cas. 1912 A, 487.
>
> " • • • Under the police power the right to erect buildings in a certain quarter of a city may be limited to from 80 to 100 feet. Welch v." (156) "Swasey, 214 U. S. 91, 53 L. Ed. 923, 29 Sup. Ct. Rep. 567. Safe

pillars may be required in coal mines. Plymouth Coal Co. v. Pennsylvania, 232 U. S. 531, 58 L. Ed. 713, 34 Sup. Ct. Rep. 359. Billboards in cities may be registered. St. Louis Poster Advertising Co. v. St. Louis, 249 U. S. 269, 63 L. Ed. 599, 39 Sup. Ct. Rep. 274. Watersheds in the country may be kept clear. Perley v. North Carolina, 249 U. S. 511, 63 L. Ed. 735, 39 Sup. Ct. Rep. 357. These cases are enough to establish that a public exigency will justify the legislature in restricting property rights in land to a certain extent without compensation. But if, to answer one need, the legislature may limit height, to answer another it may limit rent. We do not perceive any reason for denying the justification held good in the foregoing cases to a law limiting the property rights now in question if the public exigency requires that. The reasons are of a different nature, but they certainly are not less pressing. Congress has stated the unquestionable embarrassment of government and danger to the public health in the existing conditions of things. The space in Washington is necessarily monopolized in comparatively few hands, and letting portions of it is as much a business as any other. Housing is a necessary of life. All the elements of a public interest justifying some degree of public control are present. The only matter that seems to us open to debate is whether the statute goes too far.

* * *

(157) "Machinery is provided to secure to the landlord a reasonable rent. § 106. It may be assumed that the interpretation of 'reasonable' will deprive him, in part, at least, of the power of profiting by the sudden influx of people to Washington, caused by the needs of government and the war, and thus of a right usually incident to fortunately situated property,—of a part of the value of his property as defined in International Harvester Co. v. Kentucky, 234 U. S. 222, 58 L. Ed. 1287, 35 Sup. Ct. Rep. 853; Southern R. Co. v. Green, 216 U. S. 400, 414, 54 L. Ed. 536, 540, 30 Sup. Ct. Rep. 287, 17 Ann. Cas. 1247. But while it is unjust to pursue such profits from a national misfortune with sweeping denunciations, the policy of restricting them has been embodied in taxation and is accepted. It goes little if at all farther than the restriction put upon

the rights of the owner of money by the more debatable usury laws. * * *

(158) "Assuming that the end in view otherwise justified the means adopted by Congress, we have no concern, of course, with the question whether those means were the wisest, whether they may not cost more than they come to, or will effect the result desired. It is enough that we are not warranted in saying that legislation that has been resorted to for the same purpose all over the world is futile, or has no reasonable relation to the relief sought. Chicago B. & Q. R. Co. v. McGuire, 219 U. S. 549, 569, 55 L. Ed. 328, 339, 31 Sup. Ct. Rep. 259."

Similar legislation under war powers was also upheld in the case of *Highland* v. *Russell Car and Snow Plow Company*, 279, U. S. 253 where the right of Congress to regulate the price of coal under the Lever Act approved August 10, 1917, Chap. 53, 40 Stat. at L. 276, 284 was upheld against an attack that it was unconstitutional as an impairment of a contract and repugnant to the due process clause of the Federal Constitution. In this case Mr. Justice Butler speaking for the Court said, page 261:

"It is everywhere recognized that the freedom of the people to enter into and carry out contracts in respect of their property and private affairs is a matter of great public concern and that such liberty may not lightly be impaired. Steele v. Drummond, 275 U. S. 199, 205, 72 L. Ed. 238, 240, 48 Sup. Ct. Rep. 53. Generally speaking that right is protected by the due process clause of the 5th and 14th amendments. * * * It is also well established by the decisions of this Court that such liberty is not absolute or universal, and that Congress may regulate the making and performance of such contracts whenever reasonably necessary to effect any of the great purposes for which the national Government was created. * * *

"Under the Constitution, and subject to the safeguards there set for the protection of life, liberty and property, * * * the Congress and the President exert the war power of the nation, and they have wide discretion as to the means to be employed successfully

to carry on. (Miller v. Robertson, 266 U. S. 243, 248, 69 L. Ed. 265, 270, 45 Sup. Ct. Rep. 73; United States v. Chemical Foundation, 272 U. S. 1, 10, 71 L. Ed. 131, 140, 47 Sup. Ct. Rep. 1). The measures here challenged are supported by a strong presumption of validity, and they may not be set aside unless clearly shown to be arbitrary and repugnant to the constitution. Adkins v. Children's Hospital, supra, 544, (67 L. Ed. 790, 24 A. L. R. 1238, 43 Sup. Ct. Rep. 394). * * * The fixing of just prices was calculated to serve the convenience of producers and dealers as well as of consumers of coal needed to carry on the war. As it does not appear that plaintiff would have been entitled to more if his coal had been requisitioned, the act and orders will be deemed to have deprived him only of the right or opportunity by negotiation to obtain more than his coal was worth. Such an exaction would have increased the cost of the snowplows and other railroad equipment being manufactured by the defendant and therefore would have been directly opposed to the interest of the government. As applied to the coal in question, the statute and executive orders were not so clearly unreasonable and arbitrary as to require them to be held repugnant to the due process clause of the 5th Amendment."

These decisions and their reasoning, we submit, apply equally as well to the license rights under patents sought to be regulated by the Act of October 31, 1942 here under consideration and establish the dominance of the sovereign war powers over private contract rights of the citizens.

Similar dominance of sovereign powers of Government over private rights has been repeatedly recognized by this Court in *The Charles River Bridge* v. *The Warren Bridge et al*, 11 Peters 420; *Manigault* v. *Springs*, 199 U. S. 473; *The Union Bridge Co.* v. *United States*, 204 U. S. 364; *Louisville and N. R. Co.* v. *Mottley*, 219 U. S. 467; *Stephenson* v. *Binford*, 287 U. S. 251; *Home Building & Loan Assoc.* v. *Blaisdell et al*, 290 U. S. 398; *Wood* v. *Lovett*, 313 U. S. 362 and *Bowles* v. *Willingham*, 321 U. S. 503.

Since private rights of all kinds, including contract rights, are subject to the sovereign powers of the Govern-

ment, the right of exercise of the constitutional war powers in derogation of private patent rights we submit cannot now be seriously questioned. For Congress, under its war power, regulated patent rights in 1910 and 1918 as shown by the Act of June 25, 1910, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Sec. 68. If Congress can regulate the patent grant itself and other contract rights, we submit it has the power to regulate contracts based on patent rights in the manner provided by the Act of October 31, 1942 (66 Stat. 1013, 35 U. S. C. Supp. 3 Sections 89 to 96) where such contracts have the effect of impeding the war effort, for example by increasing costs, to the same extent as it has the power to regulate costs relating to other property *Block* v. *Hirsch*, 256 U. S. 135; *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253 and *Norman* v. *Baltimore & Ohio R. R. Co.*, 294 U. S. 240.

As Mr. Justice Holmes, after finding rent control proper under the war powers, aptly stated in *Block* v. *Hirsch*, 256 U. S. 135, 156,

> "The only matter that seems to us open to debate is whether the statute goes too far."

And the sole question suggested by this court for reargument is whether the Act of October 31, 1942 goes too far because of its retroactive features.

This Court held that an Act of Congress, otherwise proper, is not rendered unconstitutional or beyond the power of Congress merely because of its retroactive effect in *Billings* v. *United States*, 232 U. S. 261. In this case Mr. Chief Justice White in construing *Section 37 of the Tariff Act of August 5, 1909* which became effective on August 6, 1909 and provided an annual use tax on foreign built pleasure yachts operated by American owners or charterers upheld the act against the contention that the act was unconstitutional insofar as it required a tax to be paid on September 1, 1909 for the preceding year's use saying, page 282:

"* * * Again let it be conceded that the causing the tax for the annual period to become due in September, 1909, is to give it in some respects a retroactive effect, such concession does not cause the act to be beyond the power of Congress under the Constitution to adopt. Flint v. Stone Tracy Co., 220 U. S. 107, 55 L. Ed. 389, 31 Sup. Ct. Rep. 342, Ann. Cas. 1912 B, 1312, and authorities there cited. While the rule is that statutes should be so construed as to prevent them from operating retroactively, that principle is one of construction, and not of reconstruction, and therefore does not authorize a judicial reenactment by interpretation of a statute to save it from producing a retroactive effect."

A similar ruling as to retroactive effects of Congressional legislation under the sovereign powers was made in *Norman v. Baltimore & Ohio R. R. Co.*, 294 U. S. 240 wherein Mr. Chief Justice Hughes in upholding the constitutionality of the Joint Resolution of the Congress, of June 5, 1933 (48 Stat. at L. 112) with respect to the "gold clauses" of private contracts against the attack that it constituted an impairment of a contact, in particular the provisions for payment by reducing the value of the payments, said pages 304 and 305:

"Dealing with the specific question as to the effect of the legal tender acts upon contracts made before their passage, that is, those for the payment of money generally, the Court, in the legal tender cases, recognized the possible consequences of such enactments in frustrating the expected performance of contracts,—in rendering them 'fruitless or partially fruitless'. The Court pointed out" (305) "that the exercise of the powers of Congress may affect 'apparent obligations' of contracts in many ways. The Congress may pass bankruptcy acts. The Congress may declare war, or, even in peace, pass non-intercourse acts, or direct an embargo, which may operate seriously upon existing contracts. And the Court reasoned that if the legal tender acts 'were justly chargeable with impairing contract obligations, they would not, for that reason, be

forbidden unless a different rule is to be applied to them from that which has hitherto prevailed in the construction of other powers granted by the fundamental law.' The conclusion was that contracts must be understood as having been made in reference to the possible exercise of the rightful authority of the Government, and that no obligation of a contract 'can extend to the defeat' of that authority. Legal Tender Cases (Knox v. Lee) supra (12 Wall. pp. 549-551, 20 L. Ed. 311, 312).

* * *

(306) "The question of the validity of the Joint Resolution of June 5, 1933, must be determined in the light of these settled principles."

We submit the Act of October 31, 1942 at Sec. 7 shows a clear intent to have the Act apply to supplies, equipment or materials already delivered to the Government if the royalty has not been paid when it says:

"* * * This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided in section 1 hereof. * * * "

Applying the doctrine of construction rather than reconstruction announced in the Billings case quoted above or the reasoning of the Norman case, it is submitted that a holding of unconstitutionality of this Act would amount to the "judicial re-enactment" condemned by Mr. Chief Justice White. We submit such a holding is unnecessary here if Mr. Justice Holmes' reasoning in *Block* v. *Hirsch*, 256 U. S. 135, Mr. Justice Butler's reasoning in *Highland* v. *Russell Car and Snow Plow Company*, 279 U. S. 253 and Mr. Chief Justice Holmes' reasoning in *Norman* v. *Baltimore & Ohio R. R. Co.*, 294 U. S. 240 is applied in the light of this Court's decisions in *The Charles River Bridge* v. *The Warren Bridge et al.*, 11 Peters 420; *Home Building &*

Loan Assoc. v. *Blaisdell et al.*, 290 U. S. 398; and *Wood* v. *Lovett*, 313 U. S. 362 since the licensor's patent rights are and always have been subject to the exercise of the sovereign powers of the Government which cannot be defeated by the obligation of a private contract, *Norman* v. *Baltimore and Ohio R. R. Co.*, 294 U. S. 240; nor by a private estoppel, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88. In *Norman* v. *Baltimore & Ohio* Mr. Chief Justice Holmes stated at page 305:

> "* * * The conclusion was that contracts must be understood as having been made in reference to possible exercise of the rightful authority of the Government, and that no obligation of a contract 'can extend to the defeat' of that authority. Legal Tender Cases (Knox v. Lee) supra (12 Wall. pp. 549-551, 20 L. Ed. 312)."

In *Scott Paper Co.* v. *Marcalus Mfg. Co., et al.*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88, involving patent rights Mr. Chief Justice Stone upheld a public interest unsupported by the sovereign power against the claim of the patent owner that his private right was such as to require a judgment for money in his favor saying:

> "If a manufacturer or user could restrict himself, by express contract, or by any action which would give rise to an 'estoppel,' from using the invention of an expired patent, he would deprive himself and the consuming public of the advantage to be derived from his free use of the disclosures. The public has invested in such free use by the grant of a monopoly to the patentee for a limited time. Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws. And for the same reason a stranger, such as respondent Marcalus, cannot, by securing and assigning a patent on the invention of the expired Inman patent, confer

.on petitioner any right to deprive the public of the benefits of the free use of the invention for which the public has paid by the grant of a limited monopoly."

Certainly if this public interest standing alone is sufficient to deny to a patent owner all compensation for his alleged invention or discovery, assertion of the public interest in prosecuting the war at reasonable cost through exercise of the powers of the Federal Government under a Congressional Act limiting a private right to recover monetary compensation under a patent license agreement to action against the Government is constitutional. And merely because Congress in its discretion intended the Act of October 31, 1942 to have a retroactive effect for the purpose of preventing unjust enrichment of private individuals due to preparation for, and the necessities of war, does not render the Act unconstitutional or beyond the power of Congress.

Point II. The Royalty Adjustment Act is Constitutional as applied to royalties due from Respondent The Timken-Detroit Axle Company to Petitioner for patented devices manufactured, sold and delivered to the Government before the promulgation of the Departmental Royalty Order.

Assuming arguendo that the Act of October 31, 1942 goes too far in attaching to unpaid royalties on patented devices manufactured, sold and delivered to the Government prior to the date of the Act, it is respectfully submitted that Petitioner, Alma Motor Company, had constructive notice of the Royalty Adjustment Act of October 31, 1942 (66 Stat. 1013, 35 U. S. C. Supp. 3, Sections 89-96) from its effective date, October 31, 1942, and of the possible application of this Act to any unpaid royalties accruing to it as a result of the manufacture, sale, and use of the patented devices subsequent to the date of the Act. The fact that the administrative notice of December 30, 1942 and administrative order W-3 of July 29, 1943 were issued to officially apply the Act to the specific matter here under consideration, and to determine the reduction to be provisionally

made in the royalties stipulated in the license is immaterial since the Act itself, not the notice or the order, effects the reaching back or retroactivity. It is respectfully submitted that if a Federal act imposing a tax on the use of a yacht and having an effective date of August 6, 1909 can constitutionally impose a use tax extending back to September 2, 1908 as approved in the case of *Billings* v. *United States*, 232 U. S. 261 quoted above, the retroactive aspects of this Act, brought into force by issuance of the notice of December 30, 1942, and the administrative Order W-3 do not render the Act unconstitutional insofar as it affects royalties accruing on patented devices manufactured, sold and delivered to the Government before the promulgation of the administrative notice and order, but after enactment of the Act.

Accordingly, it is respectfully submitted that a strict interpretation of the Act of October 31, 1942 and its application to royalties accruing on patented devices manufactured, sold and delivered to the Government before promulgation of the administrative royalty adjustment order does not constitute an unconstitutional exercise of the Government's war powers.

Point III. Section 2 of the Royalty Adjustment Act authorizing a suit to be brought in the Court of Claims or in a District Court saves to Petitioner a right to recover in such a suit a sum equal to the royalties stipulated to be paid under its contract with the Respondent The Timken-Detroit Axle Company.

(a) As hereinbefore pointed out, the cases of *Block* v. *Hirsch*, 256 U. S. 135; *Norman* v. *Baltimore & Ohio R. R. Co.*, 294 U. S. 240; and *Highland* v. *Russell Car and Snow Plow Co.*, 279 U. S. 253 hold that regulation to prevent unjust enrichment as a result of war conditions, and excessive costs of prosecuting the war, by reducing war profits or income from private property are constitutional without requiring payment of privately stipulated compensation to

the property owner. And section 2 of the Royalty Adjustment Act in providing that a dissatisfied or aggrieved licensor

> "* * * may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the *licensed invention** for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise."

goes as far as is required constitutionally.

In the use of the term "licensed invention" rather than "invention" Congress had in mind the *Act of June 25, 1910*, C. 423, 36 Stat. 851 as amended July 1, 1918, C. 114, 40 Stat. 705, 35 U. S. C. Section 68 which provides for the use of any patented device by the Government and for the recovery of fair compensation for such use by action in the Court of Claims. Prompt and speedy fulfillment of the Government's needs for war preparation and prosecution made it necessary for the Government to call upon licensees who were in production on patented war equipment for quantities of licensed equipment vastly in excess of anything contemplated when their license agreements with their peacetime royalties were negotiated. Congress, recognizing these facts, and because time did not permit proceeding with unlicensed manufacturers under said 1910 Act as amended in 1918, passed the Royalty Adjustment Act to reduce the royalties accruing to the licensors under such conditions to fair and just sums, and to place at least the

* Emphasis ours.

licensed manufacturers on the same footing as if they were unlicensed and manufacturing for the Government under the Act of 1910 as amended in 1918 commencing from the time that royalties remained unpaid when the Royalty Adjustment Act was invoked.

To accomplish this end it provided a right of action in the Court of Claims or the District Courts to determine fair and just compensation for the manufacture, use, sale or other disposition of the *licensed inventions* purchased from licensees who were equipped to produce the patented inventions. Provision of this right of action in Section 2 of the Royalty Adjustment Act secured the licensor against unfair, unjust, and arbitrary destruction or modification of the stipulated royalty rate by administrative order and secures to the licensor a right of suit for the full stipulated royalty rates deemed fair and just and Congress intended the Courts in such actions to award up to the stipulated royalty rates under said Section 2.

We submit that the hearings on H. R. 7620 before the Committee on Patents of the House of Representatives clearly indicate that such was the intention of the proponents of the Royalty Adjustment Act and of the Congress.

The fact that full compensation may not be obtainable except by Court action subsequent to the exercise of the Government's sovereign rights is immaterial, since the provision for subsequent judicial review is all that the Constitution requires even where the necessity of compensation exists, *Crozier* v. *Krupp*, 224 U. S. 290. In this case, Mr. Chief Justice White held that the determination of reasonable compensation relating to a patent could be left for the future saying at page 306:

> "• • • Indisputably the duty to make compensation does not inflexibly, in the absence of constitutional provisions requiring it, exact, first, that compensation should be made previous to the taking—that is, that the amount should be ascertained and paid in advance of the appropriation—it being sufficient, having relation to the nature and character of the property taken, that

adequate means be provided for a reasonably just and prompt ascertainment and payment of the compensation; second, that, again always having reference to the nature and character of the property taken, its value and the surrounding circumstances, the duty to provide for payment of compensation may be adequately fulfilled by an assumption on the part of government of the duty to make prompt payment of the ascertained compensation—that is, by the pledge, either expressly or by necessary implication, of the public good faith to that end."

Further support for this proposition is found in the case of *Yakus* v. *United States,* 321 U. S. 414, in which Mr. Chief Justice Stone in upholding the Emergency Price Control Act of January 30, 1942, 56 Stat. 23, c. 26, 50 U. S. C. Appx. Supp. II §§ 901 et seq., 11 FCA Title 50, Appx. 25, §§ 1 et seq., as amended by the Inflation Control Act of October 2, 1942, 56 Stat. 765, c. 578, 50 USC. Appx. Supp. II, §§ 961 et seq., 11 FCA Title 50, Appx. 43, §§ 1 et seq., said page 442:

"Our decisions leave no doubt that when justified by compelling public interest the legislature may authorize summary action subject to later judicial review of its validity. It may insist on the immediate collection of taxes. Phillips v. Commissioner of Internal Revenue, 283 U. S. 589, 595-597, 75 L. Ed. 1289, 1296-1298, 51 S. Ct. 608, and cases cited. It may take possession of property presumptively abandoned by its owner, prior to determination of its actual abandonment, Anderson Nat. Bank v. Luckett No. 154, decided February 28, 1944 (321 U. S. 233, ante 692, 64 S. Ct. 599, 151 ALR. 824). For the protection of public health it may order the summary destruction of property without prior notice or hearing. North American Cold Storage Co. v. Chicago, 211 US 306, 53 L. Ed. 195, 29 S. Ct. 101, 15 Ann. Cas. 276; Adams v. Milwaukee, 228 U. S. 572, 584, 57 L. Ed. 971, 977, 33 S. Ct. 610. It may summarily requisition property immediately needed for the prosecution of the war. Compare United States v. Pfitsch, 256 US 547, 65 L ed 1084, 41 S Ct 569. As a measure of public protection the property of alien enemies may be seized, and property believed to be owned by ene-

mies taken without prior determination of its true ownership. Central Union Trust Co. v. Garvan, 254 US 554, 556, 65 L. Ed. 403, 41 S. Ct. 214; Stoehr v. Wallace, 255 S. Ct. 239, 245, 6 L. Ed. 604, 612, 41 S. Ct. 293. Similarly public necessity in time of war may justify allowing tenants to remain in possession against the will of the landlord, Block v. Hirsch, 256 US 135, 65 L. Ed. 865, 41 S. Ct. 458, 16 ALR 165; Marcus Brown Holding Co. v. Feldman, 256 US 170, 65 L. Ed. 877, 41 S. Ct. 465. Even the personal liberty of the citizen may be temporarily restrained as a measure of public safety. Hirabayashi v. United States, 320 US 81, 87 L. Ed. 1774, 63 S. Ct. 1375, supra; cf. Jacobson v. Massachusetts, 197 US 11, 49 L. Ed. 643, 25 S. Ct. 358, 3 Ann. Cas. 765. Measured by these standards we find no denial of due process under the circumstances in which this Act was adopted and must be applied, in its denial of any judicial stay pending determination of a regulation's validity."

We, therefore, submit that it is immaterial whether the Act of October 31, 1942 be deemed an exercise of the reserved Constitutional powers of the Federal Government, a taking of a contract under eminent domain in the exercise of the war powers, or the taking or appropriation of a patented invention under eminent domain in the exercise of the war powers, for full and complete compensation is provided by the act.

Furthermore the fact that the Act gives the Government the right to attack validity does not affect the constitutionality of the Act since the right to attack validity was in fact available to respondent as decided by this Court in the case of *Scott Paper Co.* v. *Marcalus Mfg. Co., et al,* Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88, as particularly set forth in the hereinbefore quoted section of this case. This Court's decision in *Sinclair & Carroll Company, Inc.* v. *Interchemical Corporation,* 325 U. S. 327 sets forth the public policy considerations which are involved in questions of validity of patents and which are the basis of the decision in the Scott Paper Company case.

(b) Even assuming that the Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89-96) when invoked to set a zero royalty as was done here effects a taking of the contract or a taking of an invention under the sovereign power of the Federal Government, the Act is constitutional since it provides for fair and just compensation for the manufacture, use, sale, or other disposition of the licensed invention. That Congress intended the relief provisions of this Act to give a licensor the exact equivalent of the right of suit against the licensee seems clear from the language itself, since there is no estoppel against the licensee attacking validity, *Scott Paper Co.* v. *Marcalus Mfg. Co., et al*, Docket No. 54, decided November 13, 1945, 326 U. S. ——, 90 L. Ed. 88. The courts, it is submitted, must presume this to be the case *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331 in which Mr. Chief Justice Taft said, page 331:

> "• • • The intention and purpose of Congress in the Act of 1918 was to stimulate contractors to furnish what was needed for the War, without fear of becoming liable themselves for infringements to inventors or the owners or assignees of patents. The letter of the Assistant Secretary of the Navy, upon which the Act of 1918 was passed, leaves no doubt that this was the occasion for it. To accomplish this governmental purpose, Congress exercised the power to take away the right of the owner of the patent to recover from the contractor for infringements. This is not a case of a mere declared immunity of the Government from liability for its own torts. It is an attempt to take away from a private citizen his lawful claim for damage to his property by another private person which but for this Act he would have against the private wrongdoer. This result, if 3477 Rev. Stats. applies and avoids the assignment, would seem to raise a serious question as to the constitutionality of the Act of 1918 under the Fifth Amendment to the Federal Constitution. We must presume that Congress in the passage of the Act of 1918 intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. • • •"

CONCLUSION.

We submit, therefore, that the Act of October 31, 1942 is not unconstitutional because of its retroactive application to any royalties that might have been due petitioner prior to the passage of the Act, provides full and complete redress for the Government's use of the licensed invention irrespective of the theory upon which the Act is based, is a constitutional and proper exercise of the sovereign war powers under the Federal Constitution, and should be upheld.

Respectfully submitted,

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APPENDIX A.

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. III, §§ 89-96) reads as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The

licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid

such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials al-

ready delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (*l*) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

APPENDIX B.

The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68) reads as follows:

> Whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however,* That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further,* That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise.

APPENDIX C.

§ 36. Same; examination of invention, and issuing of patent

On the filing of any such application and the payment of the fees required by law, the Commissioner of Patents shall cause an examination to be made of the alleged new invention or discovery; and, if on such examination it shall appear that the claimant is justly entitled to a patent under the law, and that the same is sufficiently useful and important, the commissioner shall issue a patent therefor. R. S. § 4893.

§ 40. Same; contents and duration

Every patent shall contain a short title or description of the invention or discovery, correctly indicating its nature and design, and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery (including in the case of a plant patent the exclusive right to asexually reproduce the plant) throughout the United States and the Territories thereof, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. R. S. § 4884; May 23, 1930, c. 312, § 1, 46 Stat. 376.

§ 68. Suit for unlicensed use of invention by the United States; compensation for; Government employees

Whenever an invention described in and covered by a patent of the United States shall be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. The Court of Claims shall not entertain a suit or award compensation under the provisions of this section where the

claim for compensation is based on the use or manufacture by or for the United States of any article owned, leased, used by, or in the possession of the United States prior to June 25, 1910. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in this chapter, or otherwise. The benefits of the provisions of this section shall not inure to any patentee who, when he makes such claim, is in the employment or service of the Government of the United States, or the assignee of any such patentee. This section shall not apply to any device discovered or invented by such employee during the time of his employment or service. June 25, 1910, c. 423, 36 Stat. 851; July 1, 1918, c. 114, 40 Stat. 705.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1946.

No. 11

ALMA MOTOR COMPANY, *Petitioner*;

v.

THE TIMKEN-DETROIT AXLE COMPANY, *Respondent*,
UNITED STATES OF AMERICA, *Intervenor*.

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT.

RESPONDENT'S OPPOSITION TO THE MOTION BY THE UNITED STATES TO VACATE THE JUDGMENT BELOW AND TO REMAND THE CAUSE FOR FURTHER PROCEEDINGS.

WILLIAM A. STRAUCH,
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Of Counsel for Respondent.

PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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RESPONDENT'S OPPOSITION TO THE MOTION BY THE UNITED STATES TO VACATE THE JUDGMENT BELOW AND TO REMAND THE CAUSE FOR FURTHER PROCEEDINGS.

I. A Decision as to Whether the T-79 Transfer Cases are within the Ruggles Patent and the Coextensive Agreement is Not Necessary to Properly Present the Constitutionality of Public Law 768.

The United States in its motion to vacate the judgment below and to remand this cause for further proceedings to

determine whether the appealed subject matter, the T-79 transfer cases, is within the agreement and, therefore, subject to Public Law 768 overlooks the scope of respondent's motion in the Court of Appeals and of the Court of Appeals decision. The following brief history of this proceeding is accordingly believed necessary to fully understand the situation in this cause.

This action is a declaratory judgment action filed by respondent long prior to the passage of Public Law 768. It sought a declaration as to respondent's royalty liability under its license agreement with petitioner. Petitioner contended the T-32, T-43, T-79 and other transfer cases were subject to royalties. Respondent contended that none of its transfer cases, except possibly the T-43, were subject to royalty. Plaintiff's contention, except for the T-32 and T-43 transfer cases and immaterial variations thereof was sustained by the District Court's Declaratory Judgment filed on December 2, 1942 (R. 49). It will be noted that this Judgment was entered a little over one month after Public Law 768 was approved and became law (R. 56-59).

On or about December 30, 1942, written notice was given respondent and petitioner by the War Department under Public Law 768 (R 93) that the rates of royalties being paid by respondent were unreasonable and that no further royalties should be paid pending issuance of an order under this Public Law. Conceiving that the District Court's Judgment was merely declaratory and contained provision for future enforcement (R. 50, 51), that the War Department Order was executory and must be obeyed, that no violation of the District Court Judgment would result from compliance with the War Department Order, that Public Law 768 rendered any executory relief in this action impossible, and that an appeal or effort to enforce the District Court's Declaratory Judgment was useless because it involved moot questions or questions within the jurisdiction of the Court of Claims, respondent did not appeal but

awaited the final order from the War Department before determining what action should be taken in this cause.

Petitioner, instead of complying with the District Court Judgment and seeking to enforce the provision for payment of royalty on the T-32 and T-43 transfer cases on February 27, 1943 (R. 51) appealed from that part of the Judgment relating to the T-79 transfer cases. Respondent on August 25, 1943, filed its motion to dismiss the appeal and to remand the cause to the District Court with instructions to vacate its judgment and enter a judgment dismissing the complaint and counterclaim because of transfer of jurisdiction of the subject matter to the Court of Claims or, in the alternative, to dismiss the appeal and remand the cause to the District Court with instructions to reconsider its judgment in light of the War Department order and take such further action as may be appropriate (R. 53). This was followed by intervention of the United States on November 15, 1943 (R. 98) and, on December 6, 1943, by petitioner's Petition to Review and Vacate Royalty Adjustment Order No. W-3 of the War Department.

In support of its motion respondent filed the affidavit of John E. Gallagher (R. 60, 61) showing that no present controversy existed except as to devices made for the Government.

The Court of Appeals, after briefing and argument of the case on its merits as well as respondent's motion and petitioner's petition, entered its order denying petitioner's petition (R. 111), its opinion (R. 112, 129), and its order vacating paragraph 5 of the District Court Judgment (R. 121). This latter order, it is submitted, by vacating paragraph 5 of the judgment, held there was no justiciable controversy arising out of the facts set forth in the complaint concerning the T-79 transfer cases and devices other than the T-32 and T-43 transfer cases, and specifically instructed the District Court that it might, "if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot." (R. 121).

This latter provision and the denial of petitioner's petition, it is submitted, is a direct ruling that Public Law 768, which the Court of Appeals held constitutional, was applicable, at least in connection with the portion of the judgment holding the T-32 and T-43 transfer cases within the scope of the judgment and that royalties should be paid under the agreement.

It follows, therefore, even if the Appeal Court's action in vacating paragraph 5 of the District Court judgment and denying petitioner's petition to Review and Vacate Royalty Adjustment Order No. W-3 does not constitute a ruling, such as that sought under the Government's present motion, that the Court's action in remanding the cause to the District Court to take further action on the remainder of the judgment and dismiss the counterclaim, if such action was deemed appropriate under the constitutional Public Law 768, makes a present decision on the Constitutional question necessary in order to dispose of these latter issues which both lower courts held were proper issues under the agreement and complaint.

Denial of the present motion and decision of the Constitutional question now before this Court is, accordingly, respectfully solicited.

II. Dismissal of the Appeal and Remanding of the Cause to the District Court is Proper in Any Event.

Assuming arguendo that the T-79 transfer cases are not within the scope of the agreement and, therefore, application of Public Law 768 is not warranted in connection with these particular transfer cases, the Court of Appeals action in vacating paragraph 5 of the judgment is nevertheless proper.

It is submitted that Timken's production of the T-79 cases for the Government's use is either licensed production under its agreement and subject to Public Law 768, or unlicensed production subject to the Act of June 25, 1910, as amended by the Act of July 1, 1918, 36 Stat. 851,

40 Stat. 705; 35 U. S. C. 68. In either case, Alma's right to compensation is determinable by action against the Government in the Court of Claims and no justiciable controversy exists between petitioner and respondent. It follows, therefore, that a decision on the status of the T-79 cases is wholly immaterial in this action where the record shows the only actionable production is for Government use.

It is submitted, therefore, that the Court of Appeals action in dismissing the appeal and vacating paragraph 5 of the District Court Judgment on the basis of the lack of a justiciable controversy is correct for this further reason and that petitioner and respondent should not be required to prosecute this cause further to secure a decision on this question, even if it be held that the constitutional question is not presently ripe for decision by this Court.

Respectfully submitted,

WILLIAM A. STRAUCH,
Counsel for Respondent.

J. MATTHEWS NEALE,
STRAUCH & HOFFMAN,
Of Counsel for Respondent.

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In the Supreme Court of the United States

OCTOBER TERM, 1944

ALMA MOTOR COMPANY, PETITIONER

v.

THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

MEMORANDUM FOR THE UNITED STATES

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In the Supreme Court of the United States

OCTOBER TERM, 1944

No. 806

ALMA MOTOR COMPANY, PETITIONER

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THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

MEMORANDUM FOR THE UNITED STATES

OPINIONS BELOW

The opinion of the District Court of the United States for the District of Delaware (R. 33–43) is reported in 47 F. Supp. 582. The opinion of the Circuit Court of Appeals (R. 112–120) is reported in 144 F. (2d) 714.

JURISDICTION

The order of the Circuit Court of Appeals denying a petition to review and vacate Royalty Adjustment Order No. W–3 of the War Department (R. 111–112) was entered on August 7, 1944,

The order of the Circuit Court of Appeals (R. 121) vacating a portion of the District Court's judgment was also entered on August 7, 1944. A petition for rehearing was denied on October 2, 1944 (R. 130). The petition for a writ of certiorari was filed on January 2, 1945. Jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTION PRESENTED

Whether the court below properly held that the Royalty Adjustment Act is valid insofar as it was made applicable to petitioner, the Timken-Detroit Axle Company, through the issuance of Royalty Adjustment Order No. W-3 by the War Department on July 28, 1943.

STATUTE AND REGULATIONS INVOLVED

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, 89-96) known as the Royalty Adjustment Act, is set forth in the Appendix, *infra*, pp. 7-12.

STATEMENT

This action was originally brought on January 23, 1941, in the District Court for the District of Delaware under the Federal Declaratory Judgments Act by respondent, the Timken-Detroit Axle Company, a licensee under a patent, against the petitioner, Alma Motor Company, its licensor, to declare the underlying patent invalid and the

license agreement inapplicable to certain transfer cases manufactured by respondent (R. 2–9). Petitioner counterclaimed, asking judgment for damages for respondent's failure to pay royalties under the license agreement (R. 9–13). On December 2, 1942, the District Court entered a judgment holding that the respondent was estopped to question the patent's validity (R. 36), and that certain of the transfer cases manufactured by respondent were within the scope of the license agreement and thus subject to royalties (Pars. 3, 4, R. 49–50). Paragraph 5 of the judgment held that certain other transfer cases manufactured by respondent were outside the scope of the license agreement and hence not subject to royalties (R. 50).

On February 27, 1943, petitioner appealed to the Circuit Court of Appeals for the Third Circuit from paragraph 5 of the judgment (R. 51). Respondent did not appeal from paragraph 4 of the judgment.

On July 28, 1943, while the appeal was pending in the court below, the War Department issued Royalty Adjustment Order W–3 pursuant to the authority of the Royalty Adjustment Act of October 31, 1942.[1] That order (R. 93–96) recited

[1] The critical provisions of the Royalty Adjustment Act were recently summarized by this Court in *Coffman v. Breeze Corporations, Inc.*, No. 71, present Term, decided January 2, 1945. See p. 3 of the slip-sheet opinion.

that royalties payable by respondent under its license agreement with petitioner are "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States" of the invention covered by the patent, and that such royalties are "believed to be unreasonable or excessive." The order then directed respondent (1) to pay no such royalties whatever to petitioner under the license agreement; (2) to reduce the contract price on transfer cases to any contractor or subcontractor of the United States whose manufacture embodies the use of such devices, in order to reflect the royalty reduction; and (3) to return to the United States any such royalties collected by respondent but as yet unpaid to petitioner.

Respondent then moved to dismiss the appeal on the ground that there was no longer a justiciable controversy since Section 2 of the Royalty Adjustment Act provided that the sole remedy of the licensor (petitioner), if he is aggrieved by the issuance of an order thereunder, shall be an action under Section 2 of the Act against the United States to recover fair and just compensation (R. 53–55). Taking as correct the averment in respondent's supporting affidavit that all of the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States" (R. 60), and that the royalties due upon such

cases were "directly or indirectly charged or chargeable to the United States" (see Section 7 of the Act), the United States filed a brief as *amicus curiae* with leave of court (R. 98), suggesting that, in view of the issuance of Royalty Adjustment Order No. W–3, the court should either dismiss the appeal or suspend action thereon until an actual controversy should exist between the parties.

Petitioner thereupon filed a petition "To Review and Vacate Royalty Adjustment Order No. W–3 of the War Department" on the ground that it and the underlying act were invalid (R. 98–103). Upon certification by the court below that the constitutionality of an Act of Congress had been challenged, the United States intervened under the Act of August 24, 1937 (28 U. S. C. 401) for the purpose of supporting the constitutionality of the Act and order (R. 110, 113). The court considered the question of constitutionality, since the Act, if valid, constituted a defense to appellant's claim separate from the defense sustained by the district court. (R. 113.) Cf. *Coffman* v. *Breeze Corporations, Inc.*, No. 71, present Term, p. 5; *Coffman* v. *Federal Laboratories, Inc.*, No. 485, present Term, p. 2.

On August 7, 1944, the court below rendered its decision holding the Royalty Adjustment Act and order valid, and issued an order directing the following disposition of the case (R. 120):

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

On October 2, 1944, the court below entered an order denying a petition for rehearing (R. 130).

DISCUSSION

This case presents a question of considerable importance: the constitutionality of the Royalty Adjustment Act of 1942. That Act is a wartime measure, intended to provide for the full utilization by Government agencies and its contractors of all inventions deemed essential to the war program, without the entailment of excessive or exorbitant procurement costs. Since definitive determination of the question presented has a distinct bearing upon the achievement of this objective, we do not oppose the issuance of a writ of certiorari in this case.

CHARLES FAHY,
Solicitor General.

JANUARY 1945.

APPENDIX

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, 89–96) reads as follows:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he

so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to

recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price

to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or

chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Sec-

tion 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

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No. 806

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UNITED STATES OF AMERICA, INTERVENOR

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES

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In the Supreme Court of the United States

OCTOBER TERM, 1944

No. 806

ALMA MOTOR COMPANY, PETITIONER

v.

THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES

OPINIONS BELOW

The opinion of the District Court of the United States for the District of Delaware (R. 33–43) is reported in 47 F. Supp. 582. The opinion of the United States Circuit Court of Appeals for the Third Circuit (R. 112–120) is reported in 144 F. 2d 714.

JURISDICTION

The orders of the Circuit Court of Appeals were entered on August 7, 1944 (R. 111–112, 121). Pursuant to leave of court granted on September 7, 1944 (R. 122), petitioner filed a petition for rehearing out of time (R. 122). On October 2,

1944, the Circuit Court of Appeals denied the petition for rehearing "after due consideration" (R. 130), and on the same day amended its opinion (R. 129–130). The petition for a writ of certiorari was filed on January 2, 1945, and granted February 5, 1945. Jurisdiction of this Court rests upon Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTION PRESENTED

Whether the Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013) is valid in so far as it was made applicable to petitioner and its licensee, the Timken-Detroit Axle Company, through the issuance of Royalty Adjustment Order No. W–3 by the War Department.

STATUTES INVOLVED

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C. Supp. III, §§ 89–96), known as the Royalty Adjustment Act, is set forth in Appendix A, pp. 93–98. The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68), is set forth in Appendix B, p. 99.

INTEREST OF THE UNITED STATES

This brief is filed by the United States as intervenor pursuant to the Act of August 24, 1937 (50 Stat. 751, 28 U. S. C. § 401), in order to support the validity of the Royalty Adjustment Act and of Royalty Adjustment Order No. W–3 issued there-

under by the War Department, it having been certified to the Attorney General by the Circuit Court of Appeals that the validity of that Act had been drawn in question in this suit. The United States takes no position as to the merits of the claims asserted by petitioner and respondent against each other, except in so far as the validity of the Royalty Adjustment Act and Order have a bearing thereon.

STATEMENT

Petitioner, Alma Motor Company, the owner of a United States patent on a transfer case (an auxiliary transmission for automotive vehicles), licensed respondent, The Timken-Detroit Axle Company, thereunder on September 12, 1939, at a stipulated royalty ranging from 50 cents to $1.50 per transfer case (R. 11, 88–90).[1]

PROCEEDINGS IN DISTRICT COURT

On January 23, 1941, respondent brought this action against petitioner under the Federal Declaratory Judgment Act[2] in the District Court of the United States for the District of Delaware to declare the patent invalid and the license agreement inapplicable to certain transfer cases

[1] The license was executed on May 16, 1938, under the patent application (R. 3–4, 88), the royalties to accrue upon the issuance of the patent thereon (R. 89). The patent, No. 2,173,044, issued on September 12, 1939 (R. 4), and the license then became effective.

[2] Judicial Code, § 274d (28 U. S. C. § 400).

manufactured by respondent (R. 2–9, 16–17). Petitioner filed an answer and a counterclaim for royalties alleged to be due from respondent under the license agreement (R. 9–13, 17–18). On September 23, 1942, the district court rendered its opinion (R. 33–43), and on December 2, 1942, entered a judgment (R. 49–51), holding that respondent as a licensee was estopped to question the patent's validity (Par. 3, R. 49); that certain of the transfer cases in question were dominated by the patent and thus subject to royalties under the license (Par. 4, R. 49–50); and that the remainder were outside the patent and hence not subject to royalties (Par. 5, R. 50).

On February 27, 1943, petitioner appealed to the court below from Paragraph 5 of the judgment (R. 51), which had held certain transfer cases to be outside the patent. Respondent did not appeal.

ROYALTY ADJUSTMENT PROCEEDINGS

The Royalty Adjustment Act became law on October 31, 1942. It provides that whenever a patented or unpatented invention is "manufactured, used [or] sold * * * for the United States," under a license stipulating for the payment of royalties "believed to be unreasonable or excessive" by the head of the Government agency concerned, he "shall give written notice of such fact to the licensor and to the licensee." It provides that within a reasonable time there-

after the head of the agency "shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production * * *." (Sec. 1.) The Act directs the licensee, after the effective date of the notice, not to "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use [or] sale" (Sec. 1). Section 7 makes the Act applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "have not been paid to the licensor prior to the effective date of the notice," as well as to royalties accruing upon all articles delivered after such effective date. By Section 4 any reduction in royalties authorized by the Act is to "inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid * * * or by way of refund if already paid to the licensee."[3]

On December 30, 1942, pursuant to Section 1 of the Royalty Adjustment Act, the War Department served written notice upon petitioner and respondent that the royalties called for by the license agreement between them and "now being

[3] The Royalty Adjustment Act was summarized by this Court in *Coffman* v. *Breeze Corporations, Inc.*, 323 U. S. 316, 319–320.

paid by the United States" are "believed to be unreasonable or excessive;" that an order fixing the rate or amount of royalty deemed fair and just would be issued within a reasonable time; that the licensor and the licensee could, upon request, "present in writing or in person any facts or circumstances which may * * * have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act;"[4] and that until an order is issued "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States" (R. 106–107). The notice also stated that "the United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement" (R. 107).[5] On February 8, 1943, upon petitioner's request (R. 107–108), petitioner and respondent were afforded an opportunity to present before

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[4] Section 1 of the Act provides that "the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation."

[5] An identical copy of this notice was sent to respondent (R. 60).

a War Department Examining Board "facts and circumstances" bearing upon the royalty to be fixed under the Act (R. 61–86).

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93–96). That Order recited that royalties payable by respondent to petitioner under the license agreement are "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States" of the alleged invention covered by the patent; that such royalties were "believed to be unreasonable or excessive taking into account the conditions of wartime production" (R. 93–94); and that the "fair and just" royalty under the circumstances was zero (R. 94, 96).[4] The order then directed respondent to pay no royalties whatever to petitioner under any license agreement "in respect of any supplies, equipment or materials delivered to or for the War Department," as to which royalties had not been paid prior to the notice (R. 94–95); to pay to the United States any such royalties which had accrued or were to accrue on deliveries to or for the War Department and which had not been paid to petitioner prior to the notice (R. 95); and to reduce the contract price of articles to the War Department or its contractors or subcontractors "to the

[4] This was based upon the belief of the War Department officials that the patent was invalid (R. 73).

extent necessary to give the War Department the full benefit of the [ordered] reduction in royalty rates" (R. 95).

PROCEEDINGS IN THE COURT BELOW

After Royalty Adjustment Order No. W-3 was issued, respondent on August 25, 1943, filed a motion to dismiss the appeal and remand the cause to the district court (R. 53–55). Asserting that respondent "has manufactured and sold transfer cases coming within the [license] agreement * * * only to or for the use of the War Department," the motion alleged that the court's jurisdiction had been withdrawn by the provision in the Royalty Adjustment Act depriving the licensor of any remedy against the licensee for any royalties in excess of those permitted by the Order and making the licensor's "exclusive remedy" for such royalties a suit against the United States for "fair and just compensation" (Secs. 1, 2). By leave of court (R. 96–98), the United States filed a memorandum brief as *amicus curiae* on November 15, 1943, contending that if all the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States," as the affidavit supporting respondent's motion averred (R. 60), so that the royalties due thereon were "directly or indirectly charged or chargeable to the United States" (Royalty Adjustment Act, Sec. 7), then an "actual controversy" between the litigants no longer existed

under the Declaratory Judgment Act, in view of the Royalty Adjustment Act and Order issued thereunder. The brief suggested that the court below should either dismiss the appeal or suspend action thereon until an actual controversy again arises.[7]

On December 6, 1943, petitioner filed a "Petition To Review and Vacate Royalty Adjustment Order No. W–3" on the ground that the Order and the underlying Act were unconstitutional (R. 98–103). Upon certification by the court below that the constitutionality of the Act had been questioned, the United States intervened under the Act of August 24, 1937 (28 U. S. C. § 401) for the purpose of supporting the constitutionality of the Act and Order (R. 110–111, 113).

After this issue was briefed and argued, the court below rendered its opinion on August 7, 1944 (R. 112–120), holding the Act and Order valid as a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120); and concluding that the Order's direction to pay no royalties whatever to petitioner rendered the instant suit moot (R. 113). The court accordingly directed the following disposition of the case (R. 120):

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[7] The brief *amicus* is not in the record but can be made available to this Court upon request. The Government's position as *amicus* is also set forth in its motion for leave to file a brief (R. 96–97).

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again* exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

The court also dismissed the "Petition To Review and Vacate Royalty Adjustment Order No. W-3" (R. 111–112) for want of jurisdiction (R. 119). On October 2, 1944, a petition for rehearing was denied (R. 130).

SUMMARY OF ARGUMENT

I

Under the Act of June 25, 1910, as amended by the Act of July 1, 1918, the United States and its contractors have been free to use any patented invention without license, and the patent owner's sole remedy is a suit in the Court of Claims for "reasonable and entire compensation." Such legislation is a valid exercise of eminent domain, involving the appropriation of a license in return for just compensation. *Crozier* v. *Krupp*, 224 U. S. 290; *Richmond Screw Anchor Co.* v. *United*

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*The word "again" was deleted by an order of October 2, 1944, amending the court's opinion (R. 129–130).

States, 275 U. S. 331. But this legislation was held not applicable where the patent owner had licensed a Government contractor or subcontractor to use the invention. The Government had to bear the royalties fixed by the license, even where, as was frequently the case, the enormous production requirements of total war had made unreasonable and excessive the rates fixed with an eye to peacetime conditions.

To remedy the discrepancy between licensed and unlicensed governmental production during wartime, and to place both upon a basis of fair compensation, the Royalty Adjustment Act in effect authorizes the taking of a new license under patented inventions, in return for fair and just compensation, whenever the consensual license already held by the Government contractor or subcontractor provides for royalties which the Government deems to be unreasonable and excessive under wartime conditions. This Act is clearly as valid as its prototype, the 1910 Act as amended. It provides suitable means—action in the Court of Claims—for the recovery of "fair and just compensation" by the patent owner in return for the license appropriated by the Government. And the use for which the property is taken is plainly "public," the Act being applicable only to Government procurement in order to "aid in the successful prosecution of the War" (Section 1).

It is no valid objection that the Act permits the appropriation of a license, not only as to uses of an invention occurring after its enactment or after the Government's notice that the royalties are excessive, but also as to prior uses for Government production, if the royalties accruing as a result thereof had not been paid to the licensor prior to the time the notice was issued. The taking of a new license from the patent owner covering all uses by Government contractors or subcontractors, past and future, frustrates performance of the pre-existing consensual license agreement through appropriation of its subject matter—the right to use the invention. This is a permissible result of the power of eminent domain when exercised over property whcih is subject to a contract, and compensation need be paid only for the property taken, not for the contract. *Omnia Co.* v. *United States*, 261 U. S. 502. For like reason, it is no objection that in a suit for compensation the United States may contest the patent's validity, a right normally denied to the licensee by principles of estoppel. The Constitution requires payment of the actual value of the taken property, and if the patent is invalid, the license appropriated is worthless.

The procedure prescribed by the Act is reasonable and proper, and was followed in this case. The Constitution does not require, and the Act does not provide for, an administrative hearing to

ascertain just compensation. The conference preceding the Order is solely for the patent owner's convenience, and to enable an amicable adjustment to be reached.

II

In view of the announced objective of the Act—"to aid in the successful prosecution of the war" (Section 1)—the Royalty Adjustment Act finds independent support in the Federal war powers. To the extent that the amount allowed under a royalty adjustment order, supplemented by the recovery of "just compensation," may produce a lesser return to the patent owner than the royalty rate prescribed in his license agreement, the Act permits a maximum "price" to be fixed for the use of inventions in governmental wartime production. The consequent reduction in the value of the consensual license is a result of, but not an objection to, price regulation. Cf. *Yakus* v. *United States*, 321 U. S. 414, and *Bowles* v. *Willingham*, 321 U. S. 503.

For like reasons, the Act may validly apply to royalties accruing prior to its passage, the result being merely the reduction in the value of the license agreement. The Act satisfies due process requirements.

III

Petitioner's contention that the Royalty Adjustment Act was not properly applied in this case

is contrary to fact. The record shows that at least some of the royalties involved in the instant suit have been "charged" or are "chargeable" by the respondent to the United States (Sec. 7 of the Act). In any event, the disposition of the instant suit by the court below was proper, and precludes any prejudice to petitioner, since if any royalties covered by paragraph 5 of the district court's judgment (from which petitioner appealed) were not "charged or chargeable" to the United States, the district court is free so to find on the remand, permitting the court below to pass upon the merits of the decision.

ARGUMENT

This brief is filed in support of the validity of the Royalty Adjustment Act and Royalty Adjustment Order No. W–3. We shall show herein that the Act, as applied in this case, is sustainable both as an exercise of the sovereign power of eminent domain and as an exercise of the war powers; that the Royalty Adjustment Order was properly issued in this case; and that the court below properly disposed of the appeal.

I

THE ROYALTY ADJUSTMENT ACT IS VALID UNDER THE FEDERAL POWER OF EMINENT DOMAIN

As the court below observed, there is little of "startling novelty" in the Royalty Adjustment Act (R. 114). Since 1910 the United States has been free to make and use, and since 1918 its

contractors have been free to make and use, any patented invention *without license* from the patent owner, leaving him the right to sue in the Court of Claims for "reasonable and entire compensation." The statutes authorizing this have been upheld by this Court as valid exercises of the Federal power of eminent domain. However, these statutes are not applicable where a patented invention is used by Government contractors or subcontractors *under license* from the patent owner. Yet in such instances the royalty rate fixed, although perhaps fair enough under the conditions prevailing when it was entered into, may become excessive and exorbitant as a result of the enormously increased production during wartime. Consequently, the Government, although required to pay only "reasonable" compensation for inventions used by its contractors *without license* from the patent owner, might have to pay far more than reasonable compensation for use of the same inventions by contractors who do have a license from the patent owner. Since efficient prosecution of the present war requires utilization by the Government of licensed as well as unlicensed contractors, and since there is no reason why the cost to the Government of using licensed inventions in the war effort should not be as reasonable as its use of unlicensed inventions, Congress abolished the discrepancy by authorizing the adjustment of royalties pursuant to the

Royalty Adjustment Act. This Act is clearly as valid as its prototypes.

A. Background and Purpose of the Royalty Adjustment Act

The Act of June 25, 1910 (36 Stat. 851), as amended by the Act of July 1, 1918 (40 Stat. 705),[9] provides that whenever a patented invention is "used or manufactured by or for the United States without license of the owner thereof * * *, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture." (35 U. S. C. § 68; see Appendix B, *infra*, p. 99). Both the Act and its amendment have been upheld by this Court as a valid exercise of the Federal power of eminent domain, a license to use the invention being appropriated by the Government in return for an obligation to pay just compensation. *Crozier* v. *Krupp*, 224 U. S. 290; *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

[9] The 1910 Act was in terms applicable only when a patented invention was "used by the United States," and in *Cramp & Sons* v. *International Curtis Marine Turbine Co.*, 246 U. S. 28, this Court held that the license which the United States acquired under that Act extended only to direct use by the Government itself, not to use by Government contractors. To cover this situation, the 1918 amendment extended the 1910 Act to use or manufacture "for the United States," as well as "by" the United States. See *Richmond Screw Anchor Co.* v. *United States*, *supra*, at 342-344.

The 1910 Act as amended enables patents to be infringed in the course of governmental production or procurement, free from threat of injunction or suit for damages on account of the use of the invention by Government officers (*Crozier* v. *Krupp, supra*) or by contractors in the Government's behalf (*Richmond Screw Anchor Co.* v. *United States, supra*). Consequently, procuring agencies of the Government may direct a contractor to use any patented invention deemed essential to the war program, although neither the contractor nor the United States has any license from the owner to do so, and the United States will incur no more than a reasonable cost for such use.[10]

But since the 1910 Act as amended was in terms applicable only to unlicensed use of an invention, it was held not to be available where the patent owner had licensed the contractor to use the invention; hence, the patent owner could sue the contractor for the stipulated royalties. *Newport News Shipbuilding & Dry Dock Co.* v. *Isherwood*, 5 F. 2d 924 (C. C. A. 4), certiorari denied, 269 U. S. 592. While in such cases there was no

[10] The remedy provided by the 1910 Act as amended is "exclusive and comprehensive" (*Richmond Screw Anchor Co.* v. *United States, supra*, at 343), and the jurisdiction of the Court of Claims is exclusive. *Pierce* v. *Submarine Signal Co.*, 25 F. Supp. 862 (D. Mass.). The Court of Claims has stated that the measure of recovery against the United States is the "fair and reasonable value . . . of the property right or license appropriated by the Government." *Olsson* v. *United States*, 87 C. Cls. 642, 658.

threat of injunction (the raison d'etre of the 1910 Act as amended, see *Crozier* v. *Krupp, supra,* at 303), the virtually unprecedented production increases during World War II produced a new danger—that of excessive and highly unreasonable royalty charges to the Government. Royalties fixed during time of peace and at a rate reflecting peacetime needs were being skyrocketed into enormous sums by the thousand-fold uses of production for total war.

Recognizing these factors, a bill was introduced in Congress, at the behest of the War and Navy Departments, to place all "owners of inventions utilized by the Government in the war effort"—whether such use be licensed or unlicensed—"on an equal footing and to permit the Government to exercise its rights to utilize such inventions through the medium of any desired source of supply, without having to pay more than a fair and just compensation to the owners of such inventions."[11] During the hearings on this bill before

[11] H. Rep. No. 2602 on S. 2794 (77th Cong., 2d Sess.), p. 3. See also S. Rep. No. 1640 on S. 2794 (77th Cong., 2d Sess.), pp. 2, 5. At the hearings on the bill a representative of the Navy pointed out that it would be "an anomalous situation with the Government having the broad right to utilize," under the 1910 Act, inventions "for a reasonable compensation to the owner but unable to obtain the invention from the licensee except by paying, as a proper item of cost, the unreasonable royalty called for by the license." Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d Sess.), p. 40. See also *id.*, pp. 3–4, 17, 20, 32. The hearings and the House Committee Report are collected in the Appendix to petitioner's brief.

the House Committee on Patents, representatives of the War and Navy Departments testified that a number of their contractors were manufacturing war supplies under patent license agreements executed during peacetime, calling for royalties which had been rendered exorbitant and unfair by the enormous quantities called for by the war. These excessive costs were being passed on to the Government, and could not be avoided by selecting only unlicensed producers, since in many instances licensees were the sources best equipped and experienced to supply the desired quantities or types.[12]

At the conclusion of the hearings, the House Committee reported the bill favorably, noting that the 1910 Act as amended was inadequate to cope with wartime procurement problems; that in cases of unlicensed use "the United States can and does use all inventions necessary by the simple expedient of expropriation and infringement" under the 1910 Act as amended, whereas that Act does not apply if "the owner of the patent has licensed a Government contractor to use the invention"; that in such cases the "Government cannot avoid the payment of royalties fixed by such a license, even if unreasonable, because the contractor or subcontractor who uses the invention is legally liable under his license agreement to pay the

[12] Hearings, pp. 3–4, 17–19, 21–22, 32, 40, 41, 42–44 (fn. 11, *supra*).

agreed royalty"; that in many cases patent owners "have agreed willingly to reduce royalties in cases where large production due to the war effort has made the returns to the owners out of proportion to the fair and reasonable value of the inventions," but in other cases "owners have insisted upon receiving royalties which have become unreasonable and do not reflect fair and just compensation to the owners of the inventions"; and that in the latter cases "the Government is hampered in exercising its right to use the inventions upon payment of fair and just compensation because the licensees may be the only sources adequately provided with equipment and knowledge for making most expeditious and efficient use of the inventions." H. Rep., p. 4.[13]

Congress accordingly enacted the Royalty Adjustment Act on October 31, 1942, authorizing

[13] The hearings contain many examples of royalties fixed under peacetime production schedules, which have become excessive when applied to wartime procurement. In one case, royalties on a single patent used in connection with the production of a single item of airplane construction were estimated to approximate $1,750,000 under existing Army Air Forces contracts. Hearings, p. 18. In another case, the royalty on a highly specialized piece of equipment was almost 40 percent of its unit price, and totaled over 1¼ million dollars under a single Navy contract. *Id.*, pp. 43–44. A War Department officer testified that the production volume for the Signal Corps alone "has increased * * * thousands of times—and what was a reasonable royalty at 6 percent for commercial use in radio turned out to be extremely excessive when applied to such tremendous war volume." *Id.*, p. 22; see also pp. 17–19, 42–43; H. Rep., pp. 4–5; S. Rep., pp. 3–4.

the reduction of "unreasonable or excessive" royalties under inventions "manufactured, used, sold, or otherwise disposed of for the United States," to "such rates or amounts of royalties, if any, as [the head of the Government agency concerned] shall determine are fair and just, taking into account the conditions of wartime production" (Sec. 1).

The licensee in such cases may not "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified" in the adjustment order; the licensor is deprived of "any remedy" against the licensee for any additional unpaid royalty; and the licensor's "sole and exclusive remedy, except as to the recovery of royalties fixed in said order," (Sec. 1) is suit against the United States—

> to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. (Sec. 2.)

The Act is made applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "have not been paid to the licensor prior to the effective date of the notice," as well as to royalties accruing upon articles delivered "after the effective date of the notice"

(Sec. 7). Any reduction in royalties pursuant to the Act is to "inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid * * * or by way of refund if already paid to the licensee" (Sec. 4). The Act applies to the use of an invention not only by Government contractors, but also by subcontractors and others using it with the Government's consent for its purposes (Sec. 6).

This statute makes it possible for the Government, in the prosecution of the war, to use necessary inventions through *all* manufacturers and contractors, whether licensees or infringers, and upon the same reasonable basis—"fair and just compensation"—as pertains to unlicensed use of a patented invention, under the 1910 Act as amended. See H. Rep., p. 6; Hearings, p. 20 (fn. 11, *supra*). The Act thus assures the Government of reasonableness and uniformity in procurement costs in its utilization of licensed inventions, and also prevents "windfall royalty fees" to patent owners, attributable solely to wartime industrial expansion.

This objective, of course, is not peculiar to patent license agreements, but finds expression in other aspects of our wartime controls. Thus, the Renegotiation Act of April 28, 1942 (56 Stat. 244), provides a means for reducing and eliminating excessive profits under war contracts, and the Emergency Price Control Act of January 30,

1942, as amended (56 Stat. 23, 765; 50 U. S. C. App., Supp. III, §§ 901, 961 *et seq.*), imposes analogous restrictions in the field of private enterprise.

Operations under the Act during the period of some 2½ years since its passage have confirmed the Congressional determination as to the need for the measure. According to a communication from the War and Navy Departments (see Appendix C, pp. 106–107, *infra*), more than $128,000,000 has already been saved by the military services through operations under the Royalty Adjustment Act, savings which are expected to continue at the rate of about $53,000,000 a year for the duration of the war. These savings are, in the largest measure, represented by settlements under Section 3 of the Act. Only 22 royalty adjustment orders of the War and Navy Departments are outstanding to date, representing a relatively small portion of these savings, and it is only as to these orders that suits for just compensation will lie under Section 2 of the Act.

B. THE ROYALTY ADJUSTMENT ACT APPROPRIATES A NEW LICENSE IN RETURN FOR JUST COMPENSATION

The theory of the Act is the condemnation during time of war of a license under patented inventions, which is independent of the consensual license already held by the contractor or subcontractor, in return for a right to just compensation

from the Government. As an exercise of the Federal power of eminent domain, there can, we believe, be little doubt of the validity of the Act.

Eminent domain, an inherent sovereign power, enables the United States to appropriate *any* private property for use in its constitutional activities. *Kohl* v. *United States*, 91 U. S. 367, 371, 373, 374; *Albert Hanson Lumber Co., Ltd.*, v. *United States*, 261 U. S. 581, 587. Patents are a species of property and as such are subject to the power of eminent domain. *Crozier* v. *Krupp*, 224 U. S. 290, 305, 306. The peacetime exercise of eminent domain by the United States is most commonly applied to real property (Act of August 1, 1888, 40 U. S. C. §§ 257–258), but in war time the scope of requisitions inevitably broadens until, to meet crises, they may be extended to almost every aspect of the economic life of the nation.[14]

[14] During World War I, statutes authorized requisition of the following types of property: Patents—Act of March 4, 1917, 39 Stat. 1168, 1169; Food, feeds, fuel, factories, packing houses, coal mines, and other commodities—Lever Act of August 10, 1917, §§ 10, 12, 40 Stat. 276, 279; Ships, contracts relating thereto, and, for shipbuilding purposes, lands, plants, and transportation facilities—Emergency Shipping Act, 40 Stat. 182, 183, 535, 1022; Housing for workers in essential war industries and for Government workers in the District of Columbia—War Housing Act, 40 Stat. 550, 595; Railroads—Act of March 21, 1918, 40 Stat. 451; Communication control, telephone and telegraph systems—Act of July 16, 1918, 40 Stat. 904; Ores, metals, and minerals needed for the national security and defense—Fuel Control Act, 40 Stat. 1009; Use of United States vessels at specified rates of hire—

Interests in patents have been no exception.[15] Viewed as a "taking," therefore, the Royalty Adjustment Act merely represents an application of the Government's power of eminent domain to intangible property interests in inventions, as was recognized by the bill's proponents at the hearings before the Congressional Committee.[16] That Act plainly satisfies the two constitutional limitations upon the exercise of the eminent domain power which are subject to judicial inquiry—

Act of July 18, 1918, 40 Stat. 913, 915; Ordnance proving grounds—Act of April 26, 1918, 40 Stat. 537. These acts are for the most part not now in effect, having expired or been repealed.

During World War II, statutes authorized requisition of the following types of property: Any military or naval equipment, supplies, or munitions or component parts thereof needed for the defense of the United States—Requisitioning Act of October 16, 1941, as amended, 50 U. S. C. App., Supp. III, §§ 721, 636, 636a; Possession and operation of strike-bound plants—Section 9 of Selective Service and Training Act of 1940, as amended, 50 U. S. C. App., Supp. III, § 309; Real and appurtenant personal property for war purposes—Act of March 27, 1942, amending Act of July 2, 1917, 50 U. S. C. App., Supp. III, § 632.

[15] Act of March 4, 1917, 39 Stat. 1168, 1169 (patents relating to the manufacture and development of aircraft).

[16] The War Department representative stated that legislation now enables that department to "requisition or condemn every kind of species of property except patents. The War Department does not believe that inventions or their resultant patents are entitled to any greater degree of sanctity than other property." Hearings, p. 21. To the same effect is testimony of the representatives of the Department of Justice. *Id.*, p. 48; see also H. Rep., pp. 4, 6; S. Rep., pp. 2, 4 (fn. 11, *supra*).

that just compensation be provided (*Jacobs* v. *United States,* 290 U. S. 13, 16), and that the property be taken for a public use (*Shoemaker* v. *United States,* 147 U. S. 282, 298).[17]

1. *Just compensation*

Although the right to compensation for property taken under eminent domain is inherent in the Fifth Amendment and need not rest upon statutory provisions (*Jacobs* v. *United States, supra,* at 16), Section 2 of the Act makes the remedy specific by authorizing aggrieved licensors to "institute suit against the United States * * * to recover such sum, if any, as, when added to the royalties fixed and specified" in the Royalty Adjustment Order, "shall constitute fair and just compensation." This is a sufficient provision for just compensation under the Fifth Amendment. *Hurley* v. *Kincaid,* 285 U. S. 95; *Crozier* v. *Krupp,* 224 U. S. 290.

Petitioner complains that the Act violates the Fifth Amendment in that it destroys petitioner's "pre-existent legal right * * * to sue the licensee, making the licensor's sole and exclusive remedy a suit against the United States" (Pet. Br. 45). But this Court has recognized that a substituted right to sue the United States, rather

[17] The constitutional requirements of the Fifth Amendment as regards the exercise of the eminent domain power were discussed extensively during the hearings on the Act, and were deemed to be fulfilled. Hearings, pp. 20, 23; H. Rep., p. 6; see also S. Rep., p. 4 (fn. 11, *supra*).

than a government contractor, for compensation "is as comprehensive as the requirement of the Constitution." *Yearsley* v. *Ross Construction Co.*, 309 U. S. 18, 22, and cases cited therein.[18]

Petitioner further contends (Pet. Br. 47–49, 69–71) that the right given to an "aggrieved" patent owner by Section 2 of the Act, to proceed against the United States for "fair and just compensation," is not the "exact equivalent" of his former right to proceed against the licensee for the stipulated royalties, since (1) the United States may challenge the patent's validity, a right normally denied a licensee, and (2) the "fair and just compensation" recoverable under Section 2 must take "into account the conditions of wartime production," and may thus be less than the royalties called for by the license agreement. From this, petitioner concludes that Section 2 is violative of the Fifth Amendment, citing *Rich-*

[18] Petitioner argues that the Royalty Adjustment Act violates the Seventh Amendment to the Constitution because it does not provide for a jury trial on the question of validity or damages, *i. e.*, the value of the property taken (Pet. Br. 76). The limitations of the Seventh Amendment have no bearing upon suits brought against the United States, for when the sovereign consents to be sued, that consent may be so conditioned as to dispense with jury trial. See *United States* v. *Sherwood*, 312 U. S. 584, 587. Moreover, this Court has consistently ruled that due process of law does not require a trial by jury in condemnation cases. *Dohany* v. *Rogers*, 281 U. S. 362, 369; *Crane* v. *Hahlo*, 258 U. S. 142, 147; *Bauman* v. *Ross*, 167 U. S. 548, 593; *Kohl* v. *United States*, 91 U. S. 367, 376.

mond Screw Anchor Co. v. *United States,* 275 U. S. 331.

This contention misconceives the subject matter taken under the Act. Neither the preexisting license nor the royalties due thereunder are taken; a new license is instead condemned, and it is the monetary "equivalent" of this new license for which the Act authorizes, and the Constitution requires, recovery against the United States. And the *Richmond* case, so far from supporting petitioner's argument in this regard, confirms the Government's position. In that case, a suit against the United States under the 1910 Act as amended in 1918,[19] brought by the assignee of a patent on account of use of the invention by a government contractor prior to the assignment, was met with the defense that the suit was barred by Section 3477 of the Revised Statutes, forbidding the assignment of claims against the Government. This Court held that to construe R. S. 3477 as applicable would "raise a serious question as to the constitutionality of the Act of 1918," since it must be presumed "that Congress in the passage of the Act * * * intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. It was taking away assignable claims against the contractor for the latter's infringement of his patent. The assignability of such

[19] The 1918 amendment extended the 1910 Act to infringement suits against Government contractors. See p. 16, *supra.*

claims was an important element in their value and a matter to be taken into account in providing for their just equivalent" (at 345). It is thus clear that the "exact equivalent" to which this Court referred was not an exact equivalent in terms of money, but an assignable cause of action against the United States in lieu of an assignable cause of action against the contractor. The Court pointed out that if "section 3477 applies and these assignments are rendered void, the effect of the Act of 1918 is to take away from the assignee and present owner not only the cause of action against the Government, but also to deprive it of the cause of action against the infringing contractor for injury by his infringement" (275 U. S. at 345).

That this Court was not concerned with an "exact equivalent" in terms of compensation is to be seen from a comparison between the rights of a patent owner or his assignee against an infringer (profits plus a maximum of treble damages, 35 U. S. C. §§ 67, 70), and his right to "reasonable and entire compensation" under the 1910 Act as amended. See *Olsson* v. *United States*, 87 C. Cls. 642. In both the *Richmond* case and in *Crozier* v. *Krupp*, 224 U. S. 290, *supra*, this Court recognized that a patent owner's right to "reasonable and entire compensation" for governmental use of his invention meets constitutional requirements. Petitioner's claim that it is constitutionally entitled to a cause of action, not merely

for the value of the property taken from it, but for the royalties fixed in the agreement between petitioner and respondent (Pet. Br. 70), would nullify the entire Act.[20] In any event, the *quantum* of recovery is a question properly to be raised in the suit against the United States for just compensation. See pp. 53–55, *infra*.

2. *Public use*

The second requirement of condemnation—that the intended use be public—is also clearly met, since it is not denied that the structures here involved have been and will continue to be used in equipment required for the public purposes of the United States—here the purpose of prosecution of the war. This Court has upheld the taking of licenses under patents not only for direct use by the Government (*Crozier* v. *Krupp*, 224 U. S. 290, 305), but also for use by its contractors (*Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331). The "public nature" of the use of commandeered property is, of course, not lessened

[20] The "exact equivalent" referred to in the *Richmond* case was the right to assign a claim for infringement; and the effect of the decision in that case was to restrict the prohibition against assignments in Rev. Stat. § 3477—which the law understandably looks upon with some disfavor as a restraint upon alienation. There is no such disfavor of the policy of restricting costs of wartime procurement to reasonable levels, and of suspending the technical rule of estoppel where that might result in charges to the Government under a worthless patent. Cf. *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, 177.

by the circumstance that the actual user is the Government's contractor or subcontractor instead of the Government's officers and employees. Cf. *International Paper Co.* v. *United States,* 282 U. S. 399.

Whether it is necessary to take patent interests for use in the war effort is a question solely for Congress and not the courts. Cf. *North Laramie Land Co.* v. *Hoffman,* 268 U. S. 276, 284; *Bragg* v. *Weaver,* 251 U. S. 57, 58. And the Congressional findings in the Act that the powers therein provided for will "aid in the successful prosecution of the War" (Sec. 1)—in effect a declaration of the public nature of the use to be made of the interests taken—"is entitled to deference until it is shown to involve an impossibility." *Old Dominion Land Co.* v. *United States,* 269 U. S. 55, 66. No such showing has been or could be made here.

In any event, decisions of this Court upholding the 1910 Act as amended foreclose any question as to the validity of the Royalty Adjustment Act. *Crozier* v. *Krupp,* 224 U. S. 290, approved the 1910 Act, then applicable only to unlicensed use by the Government of a patent, on the ground that "in view of the public nature of the subjects with which the patents in question are concerned [improvements in guns and gun carriages] and the undoubted authority of the United States as to such subjects to exert the power of eminent domain," that Act "provides for the appropriation of a license to use the inventions, the appro-

priation being sanctioned by the means of compensation for which the statute provides" (at p. 305). The 1918 amendment, extending the 1910 Act to use or manufacture of the invention by a Government contractor, was likewise held valid. *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

The Royalty Adjustment Act was intended to fit within the same pattern, and is supported by the decisions under the earlier legislation.

C. THE ROYALTY ADJUSTMENT ACT MAY VALIDLY BE APPLIED TO INVOICED ROYALTIES

Section 1 of the Royalty Adjustment Act provides that after the effective date of the notice from the Government that the royalties fixed in the license are excessive, the licensee shall not "pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified" in the Royalty Adjustment Order thereafter to be issued. And Section 7 makes the Act applicable to "all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials" which are either (1) "delivered to or for the Government from and after the effective date of the notice," or (2) "already delivered to or for the Government," if the royalties have not been "paid to the licensor prior to the effective date of the notice."

Thus, the Act would permit the appropriation of a license not only as to uses of an invention occurring after its enactment or after a notice is issued thereunder, but also as to prior uses for Government production, if the royalties accruing as a result thereof had not been paid to the licensor at the time the notice was issued. And, of course, the Act clearly applies to license agreements existing prior to its enactment, as well as to those executed thereafter. Indeed, the former class was the primary concern of Congress, for it is the royalty negotiated in time of peace and with an eye to normal production that is most apt to become exorbitant under wartime expansion. (See pp. 18–19, *supra*.) [21]

The Royalty Adjustment Order here involved directed respondent to pay no royalty whatever to petitioner under its license agreement (entered into prior to the Act) on account of the manufacture, use, sale, or other disposition of the structures for the United States, including "the balance of any royalties accrued * * * on

[21] Petitioner's intimation that the Act was not intended to apply to royalties which had accrued prior to its enactment (Pet. Br. 36, 37) is unsupported by any argument, and is contradicted by the explicit language of Section 7, as well as by the legislative materials. The Specifications of Error (Pet. for Cert., 22–24; Pet. Br. 16–19) do not challenge the construction given to the Act and Order by the court below, which applied them to all royalties here involved. See pp. 56–57, *infra*.

account of supplies, equipment or materials delivered to or for the War Department * * * and which * * * on the effective date of said notice were due and payable to Licensor but were unpaid." Such accrued royalties respondent was directed to pay to the Treasurer of the United States (R. 93–96).[22] Some of such unpaid royalties represented deliveries before the Act was passed; some related to deliveries between the Act's approval (October 31, 1942) and issuance of the notice thereunder (December 30, 1942). And, of course, the Royalty Adjustment Order was equally applicable to all uses of the invention by respondent for the War Department after the date of the notice (R. 95).

Petitioner contends that the Act and the Royalty Adjustment Order are invalid because they are "retroactive," and affect contract rights (i. e., the right to accrued royalties) which had "vested prior" to the passage of the Act (Pet. Br. 35–37). These contentions are wholly without substance.

1. *The Act may apply to uses under a preexisting license agreement*

Contrary to petitioner's assumption (Pet. Br. 48–49), its license agreement with respondent is not what is "taken" under the Royalty Adjustment Act. As we have seen (pp. 23–32, *supra*), that

[22] Respondent has not as yet paid these accrued royalties to the Treasurer of the United States. See Appendix C, pp. 101–102, *infra*.

Act authorizes the appropriation of a new license from the patent owner, independent of and separate from the consensual license already held by the Government contractor or subcontractor, and it is for the new license that the United States is bound to pay fair and just compensation.[23] The appropriated license then covers all use by Government contractors or subcontractors, past and future, for which royalties under the consensual license had not been paid to the licensor prior to the notice. The legislative materials leave no doubt that the existing license agreement was not the property taken. See H. Rep., p. 6; Hearings, pp. 48, 71 (fn. 11, *supra*).

It is true that the Royalty Adjustment Order prevents full performance of the pre-existing license agreement. But this is due to the fact that, by appropriating a new license to use the invention, the United States is in effect taking the subject matter of the license agreement between the Government contractor and the patent owner (the use of the invention for the Government), thus preventing the performance or application

[23] The opinion below seems to have fallen into slight error on this point, implying that the property taken is the existing license agreement (R. 116–117). However, the remainder of the opinion and its conclusion show the appreciation of the real impact and effect of the Act as an exercise of eminent domain covering the use of the invention for the Government (R. 114–120).

of that license agreement in respect of such use. In other words, since the use of the invention under the new license would otherwise be covered by the consensual license, the effect of the statute is temporarily and partially to suspend or frustrate performance of the private agreement, except in so far as its operation is permitted by the Royalty Adjustment Order. It is clear that frustration of a preexisting contract by condemnation of its subject matter neither violates any constitutional guarantee nor constitutes a "taking" of the frustrated contract or of the "money" due thereunder (cf. Brief Am. Cur. 33–43).

In *Omnia Co.* v. *United States*, 261 U. S. 502, the United States requisitioned steel plate which the Allegheny Steel Company had contracted to sell and deliver to Omnia. Claiming that its contract with Allegheny had been taken, Omnia sued the United States for just compensation. This Court denied recovery, ruling that the United States had "not appropriated but ended" Omnia's contract with Allegheny, and that "Frustration and appropriation are essentially different things" (at p. 513).[24] See also *Mullen Benevolent Corp.*

[24] The doctrine of the *Omnia* case was recently cited with approval in *United States ex rel. T. V. A.* v. *Powelson*, 319 U. S. 266, 282. See also *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, 95. These citations would seem to dispel any notion that the *Omnia* decision had been weakened by *Brooks-Scanlon Corporation* v. *United States*,

v. *United States*, 290 U. S. 89, 94–95. Indeed, "there can be no right to restrain by contract the power of eminent domain" and "any contract by which it was sought to accomplish that result would be inefficacious for want of power." *Pennsylvania Hospital* v. *Philadelphia*, 245 U. S. 20, 23. Hence, the preexisting license agreement between petitioner and respondent cannot preclude the application of the Federal power of eminent domain to uses of the invention which were covered by that license, whether such use occurred before or after the Act.

2. *The Act may apply to uses occurring prior to its passage*

The same principles sustain the application of the Act to uses of a licensed invention for the Government prior to the Act. Petitioner contends that as a result of such uses, the stipulated royalties under the license agreement "accrued,"

265 U. S. 106 (upon which the *amicus curiae* brief in this case heavily relies, Brief Am. Cur. 16–18). In the *Brooks-Scanlon* case, the Government not only ordered the physical taking of the vessel, but directed the shipbuilder to "proceed in conformity with the requirements" of Brooks-Scanlon's contract (265 U. S. at 117), and this Court found that by such an order the Government "put itself in the shoes of [Brooks-Scanlon] and took from [it] and appropriated to the use of the United States all the rights and advantages that an assignee of the contract would have had" (at 120). Here there was no substitution under the license agreement. See Sec. 2, authorizing the defense of invalidity (which the licensee is normally estopped to assert) in a suit for just compensation.

and the licensee was obligated to pay them to the licensor. This is denied by respondent, but assuming such an obligation existed, performance was frustrated by the Government's appropriation of an independent license covering the same uses of the invention as underlay the accrued royalties. Thus, in lieu of his right to agreed royalties for the uses in question, the licensor is left with a claim for just compensation against the Government for the subject matter taken—*i. e.*, the independent license covering uses of the invention prior to the Act.

The right thus to affect "accrued" contract rights is confirmed by the decisions cited above. The value of a contract changes with the extent of performance thereunder, and the "accrual" of rights under a contract is nothing more than the increase in the value of the performance which one party is entitled to call for. Such rights, no less than contract rights to accrue in the future, must yield to the sovereign power of eminent domain. They can be "frustrated" by the appropriation of the subject matter of the contract, which gave the contract its value, as fully as rights still to arise thereunder. Cf. *Omnia Co.* v. *United States*, 261 U. S. 502, *supra*; *Morrisdale Coal Co.* v. *United States*, 259 U. S. 188, 190; *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, 94.

Apart from the doctrine of frustration, an independent ground sustains the Act as applied to uses of the invention prior to its passage. Con-

gress created the patent monopoly, and has plenary power to legislate with respect thereto. *Pennock* v. *Dialogue*, 2 Pet. 1; *Seymore* v. *Osborne*, 11 Wall. 516. Because the private privilege derived from the patent grant is at the expense of the public domain, that privilege must yield where necessary to "the public interest which is dominant in the patent system." *Mercoid* v. *Mid-Continent Investment Company*, 320 U. S. 661, 665. And the patent grant, like other "private rights vested by the government" is "by necessary implication, held in subordination to [the power of eminent domain], and must yield in every instance to its proper exercise." Cf. *West River Bridge Company* v. *Dix*, 6 How. 507, 532. Moreover, contracts which "deal with a subject matter which lies within the control of the Congress * * * have a congenital infirmity" (*Norman* v. *B. & O. R. Co.*, 294 U. S. 240, 307–308), and individuals must assume that fields subject to regulation will be regulated at some time. See *United States* v. *Hudson*, 299 U. S. 498, 500; *Veix* v. *Sixth Ward Bldg. & Loan Ass'n*, 310 U. S. 32, 38.

Patent owners had notice, 32 years before the Act here in question, of the Congressional policy to pay just compensation, instead of an infringer's damages or profits, for use of patented inventions. Act of June 25, 1910, 36 Stat. 851. And 24 years before the instant Act, that policy was extended to use by a Government contractor. Act of July 1, 1918, 40 Stat. 705. Patent owners, faced with

three decades of the use of the power of eminent domain to impose a fair and just limit upon the Government's liability for use of a patented invention, were not entitled to assume that Congress would continue to allow agreements between private parties to fix exorbitant and excessive charges to the Government for wartime use of the invention. Patent owners were not entitled to assume that by virtue of profitable private agreements, they might levy a far greater tribute upon wartime production, when the means utilized was a licensed contractor, than they could exact if the same production was undertaken through an unlicensed contractor.

In these circumstances, the determination by Congress, in the Royalty Adjustment Act, that there should be equality of cost between licensed and unlicensed use by a Government contractor or subcontractor, and that equality should begin with any uses of the invention as to which royalties had not already been paid to the licensor at the time the Government announced their excessiveness, cannot be denounced as unreasonable or arbitrary. The license agreement between petitioner and respondent "must necessarily be regarded as having been made subject to the possibility that, at some future time, Congress might so exert its whole constitutional power * * * as to render that agreement unenforceable or to impair its value." *Louisville & Nashville R. Co.* v. *Mottley,* 219 U. S. 467, 482.

The power of Congress to invoke the power of eminent domain in order to keep the cost of governmental use of patented inventions in wartime down to reasonable charges, must surely be as free as the interstate commerce power from the fetters of "existing arrangements" and the "prophetic discernment" of private individuals. See *Sproles* v. *Binford*, 286 U. S. 374, 390–391.[25]

[25] It is no objection that the Act may be applied to uses of inventions by Government contractors prior to December 7, 1941, the date on which the United States entered the present war. In the instant case, the royalties involved date back to September 1939 (see R. 12, 89). While petitioner makes no formal objection on this ground, the Act's application to such uses is clearly correct. The Congressional determination that a license should be appropriated as to such uses is not arbitrary, nor does it "involve an impossibility." Cf. *Old Dominion Land Co.* v. *United States*, 269 U. S. 55, 66. The "conditions of wartime production" referred to in Sections 1 and 2 of the Act, which caused preexisting royalty rates to become exorbitant, did not arise overnight on December 7, 1941. They were present in September 1940 when Congress passed the Selective Training and Service Act (Act of September 16, 1940, 54 Stat. 885, 50 U. S. C. App. §§ 301–318), and in May 1941 when the President proclaimed an unlimited national emergency (Proc. No. 2487, 6 F. R. 2617, 50 U. S. C. App., Supp. III, pp. 744–745). The impact of the impending world conflict was indeed beginning to be felt in February 1936, when "in the interest of national defense" Congress prohibited the export of tin-plate scrap except upon license issued by the President (Act of February 15, 1936, 49 Stat. 1140, 50 U. S. C. §§ 86–88); and in June 1938, when Congress authorized the Secretary of War to place educational orders for munitions of war "needed in the military service" in order "to familiarize commercial and manufacturing establishments with the manufacture of such munitions" (Act of June 16, 1938, 52 Stat. 707, 50 U. S. C. §§ 91–95).

3. *Uses between the enactment of the Act and the issuance of a notice thereunder*

The principles discussed above sustain the application of the Act, as a valid exercise of the Federal power of eminent domain, to all uses of a patented invention, before or after the Act was passed. However, in respect of uses occurring after the Act but before a notice issued thereunder, an additional ground supports the Act.

The Act may be deemed an appropriation of an inchoate license under all patented inventions licensed to Government contractors or subcontractors at a royalty. This inchoate license could be asserted by the Government at any time that it determined the stipulated royalty was unreasonable, and when so asserted, the license would cover all use occurring after the Act was passed. Until so asserted, the parties could proceed under their prior license.

To this extent, the Royalty Adjustment Act operates, in the field of licensed use, as the 1910 Act operates in the field of unlicensed use. Under the 1910 Act, as amended, the Government may use or direct its contractors to use patented inventions without notice to the patent owner. There is no formal proceeding to condemn or appropriate a license; the "taking" consists of the actual use of the invention by the Government, its contractors or subcontractors. See *Olsson* v. *United*

States, 87 C. Cls. 642, 657. The patent owner, after such governmental use, may sue the United States for reasonable compensation. Thus, under the 1910 Act as amended, it could be said that the Government and its contractors have an inchoate license to use any invention for a reasonable royalty, such license to become effective upon actual use of the invention.

The same is true of the Royalty Adjustment Act, which, as we have shown, was designed to supplement the 1910 Act by providing for procurement at a reasonable cost where the Government contractor or subcontractor was under a license, as well as where he was unlicensed. Section 1 of the Act constructively notifies all patent owners that thenceforth all licensed use would be on the same basis as unlicensed use, and that the Government may, in appropriate instances, declare that a Government contractor or subcontractor is paying excessive royalties under his license agreement and, under the independent license, may require that payment be limited to fair and just compensation. Until the inchoate license was made operative through the issuance of a notice and order however, Government contractors and subcontractors were permitted, for convenience, to proceed under their own license, and could continue to pay royalties thereunder.

4. *If petitioner's vested rights to accrued royalties have been "taken," an adequate remedy is available against the United States*

Even if petitioner were correct in asserting the inviolability of its right to royalties accruing prior to the enactment of the Act, that would not warrant holding the statute unconstitutional. Section 2 of the Act affords petitioner a means by which it may recover "fair and just compensation" for the use of its invention for the United States, and if, for constitutional or any other reason, the value of such use prior to the Act is more than the figure stipulated in the Royalty Adjustment Order, then petitioner, as a person "aggrieved by" the Order (Sec. 2), has an adequate remedy in the courts to recover the proper compensation for such accrued royalties, even at the royalty rate fixed in the license, if that is proper. Such a right is sufficient to meet the requirements of the Fifth Amendment. *Hurley* v. *Kincaid*, 285 U. S. 95; *Crozier* v. *Krupp*, 224 U. S. 290. Congress having provided an adequate remedy to persons "aggrieved" by the operation of the Act, there can be no claim that it divests property interests without just compensation.

D. IT IS NO OBJECTION THAT THE UNITED STATES IS NOT ESTOPPED TO SET UP INVALIDITY IN A SUIT FOR COMPENSATION

Petitioner contends that the Royalty Adjustment Act deprives it of property without due process of law because it makes available to the

United States when sued for just compensation, "all defenses, general or special, that might be pleaded by a defendant in an action for infringement" (Sec. 2),[26] thus giving the United States a right which was denied to the licensee at the time of the passage of the Act—the right to challenge the validity of the patent (Pet. Br. 41–48). The unsoundness of this contention is demonstrable on several grounds:

(1) Petitioner's contention as to estoppel is predicated upon the erroneous assumption that the Act substitutes the United States for the licensee under the license agreement. As the sponsors of the Act made clear (Hearings, fn. 11, *supra*, pp. 48, 55, 71), when the United States issues a Royalty Adjustment Order, it is not substituted for the licensee, but takes an independent license pursuant to its powers of eminent domain. The new license in effect provides that the royalty rate is to be the fair and just value of the use of the invention, and that the invalidity of the patent may be asserted as a defense in a suit for compensation (Secs. 1, 2). Consequently, the plea of estoppel, formerly available to the licensor when suing for royalties under the consensual license,

[26] This provision is taken from the 1910 Act as amended (35 U. S. C. § 68). At the hearings, it was pointed out that the "1910 Act as amended recognizes the right of the Government to show that the patent upon which suit is brought for compensation is worthless for one reason or another." Hearings, p. 48 (fn. 11, *supra*).

becomes inapplicable when the licensor is suing for compensation under the appropriated license. This was the clear intention of Congress in passing the Act. The sponsors of the Act pointed out that to deny the Government the right to assert the invalidity of the patent when sued for just compensation, "would not only be inconsistent with this essential purpose underlying this bill, but would run counter to the tradition in all condemnation and eminent domain cases." (Hearings, fn. 11, *supra*, p. 48.)[27]

The estoppel between licensee and licensor is merely an element in the value of their negotiated license, not dissimilar in this respect from the stipulated royalty—an agreement between the two parties as to the value of the commercial use

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[27] At the hearings, in response to an assertion by Mr. Fenning, testifying for the American Patent Law Association, that the Government would become substituted for licensees under the Act, the following colloquy took place between Mr. Fenning and Mr. Lanham, the Acting Chairman of the House Committee on Patents:

"Mr. LANHAM. Well, if [the Government] were subjected to the situation of the licensee with all of the limitations upon the licensee under existing law, why, this whole act would be inoperative, would it not?

"Mr. FENNING. Oh, no; not at all. The question to be determined, so far as this act is concerned, is how much royalty.

"Mr. LANHAM. But, that is determined in the original contract between the owner of the patent and the licensee and the licensee cannot dispute that, and if the Government has no further authority than the licensee, the Government in court could not dispute it or alter it." (Hearings, p. 55.)

of the patent.[28] But this cannot bind the sovereign who condemns the subject matter of the contract. In determining compensation payable by the Government for a taking, the courts will consider the *actual* value of the property at the time of the taking (*Russell Co.* v. *United States*, 261 U. S. 514, 523); and the price for the property fixed in a contract between the property owner and private purchaser, while it "may be evidence of the value of what is taken," "is not the criterion of value," nor conclusive upon the courts. *United States* v. *General Motors Corporation*, 323 U. S. 373, 383; see also *Federal Eminent Domain* (Lands Division, Dept. of Justice, 1940), pp. 806–807. Petitioner is entitled to fair and just compensation for the use of the invention in behalf of the Government. If petitioner's patent is invalid, the value of such use could properly be fixed only at zero, as if it were any other kind of worthless article. The opportunity afforded by the Act to have a court determine the fair value of the property taken, and to obtain compensation accordingly, meets the requirements of the Fifth Amendment. *Hurley* v. *Kincaid; Crozier* v. *Krupp, supra*, p. 44.

(2) As part of its announced policy to restrict to reasonable levels the charges for patented inventions used in war production, Congress de-

[28] Respondent alleged in the district court that it entered into the instant license agreement with petitioner to avoid "the futility of expending large sums of money in contesting and litigating" a patent of "doubtful validity" (R. 3).

termined, in the Royalty Adjustment Act, that the United States should not be charged unreasonable royalties for an invalid patent, whether the use of the invention occurred before or after the Act was passed; and that the cost to the Government should be the reasonable value of the use of the invention in both instances. The public policy behind this objective is clearly sufficiently compelling to warrant abolishing *pro tanto* the technical plea of estoppel where that would protect an invalid patent and give it a wholly artificial value. Precedents for this conclusion are at hand. In *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, a patent licensee who was sued for royalties asserted that a price-fixing clause in the license agreement violated the antitrust laws because the patent was invalid. This Court upheld that defense and rejected the plea that the licensee was estopped to question the validity of the patent. Mr. Chief Justice Stone said (at pp. 176–177):

> The federal courts have been consistent in holding that local rules of estoppel will not be permitted to thwart the purpose of statutes of the United States. * * * *
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> * * * * * *
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> Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act

which in the public interest precludes the enforcement of such unlawful agreements. Cf. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492–93.

The application of the rule of the *Sola* case here is clear. A patent is affected with the public interest, the grant creating a privilege at the expense of the public domain; and such a privilege may not thwart the public interest as defined by Congress. *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661. A suit involving the patent privilege "does not concern only private parties," but raises "issues of great moment to the public." *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U. S. 238, 246. Here, the public policy enunciated in the Royalty Adjustment Act is that inventions used in connection with the war effort should involve only a reasonable charge to the United States. Clearly, the purpose of the Royalty Adjustment Act is not to be thwarted by hiding an invalid patent behind a plea of estoppel, "which would fasten upon the public" as well as the Government the financial burden of tribute under a worthless patent.

(3) To deny the United States the right to challenge the validity of a patent in a suit against it for fair and just compensation would open the door to frauds against the Government. Persons owning a patent of doubtful validity could induce Government contractors, or those likely to receive Government contracts, to accept licenses

calling for royalties, and thereby save the validity of the patent from the judicial scrutiny to which it would otherwise be subject in a suit for unlicensed use under contract (35 U. S. C. § 68). Obviously, there is no reason why "the Government, which has never consented to the terms of that license and had nothing to do with fixing the terms," should be bound by any of its legal incidents. Hearings (fn. 11, *supra*), p. 48.

E. THE PROCEDURE PROVIDED FOR BY THE ACT AND FOLLOWED HERE IS REASONABLE

Petitioner contends that the notice and "hearing" at which it was given an opportunity, on February 8, 1943, to present to the War Department any facts or circumstances bearing on the rates of royalties to be fixed by the Government, were inadequate, improper, and violative of the Fifth Amendment (Pet. Br. 49–59). Petitioner further complains that the Royalty Adjustment Order issued by the War Department was based upon a "determination" that the patent was invalid, and that such a "holding of invalidity" is objectionable because not based upon any evidence before the administrative board of the War Department, nor upon any findings made by the Board (Pet. Br. 59–65, 76). These contentions are wholly without merit because (1) due process of law does not require an administrative hearing in eminent domain proceedings; (2) the order was merely a preliminary administrative fixing of

value, not binding upon the courts; and, in any event, (3) the procedure prescribed by the Act and followed in this case was reasonable and proper.

1. *A formal administrative proceeding was not intended nor constitutionally required*

Under Section 1 of the Act, if the head of an executive department believes that a royalty rate paid by a contractor and charged or chargeable to the Government is "unreasonable or excessive," he must give notice thereof to the patent owner and the licensee, and within a reasonable time thereafter must issue an order fixing the rate and amount of royalty, if any, determined to be "fair and just, taking into account the conditions of wartime production." However, the patent owner or licensee, upon request, is entitled to an opportunity to "present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any," to be fixed in the order.

It is plain that Congress did not intend that the presentation of such material to the Federal agency should constitute a formal hearing such as is held by a regulatory body, but rather that it should be a means of aiding the department head to determine what royalties should voluntarily be paid to the patent owner, with a view to amicable adjustment out of court. The provision for the

presentation of facts and circumstances was first proposed by the House Committee on Patents, and its report explains the underlying purpose:

> The adoption of this amendment will afford the licensor or licensee or other interested party a reasonable opportunity to discuss with the department or agency of the Government concerned the amounts and rates of royalties before the issuance of any order fixing such amounts or rates, without danger of delaying or interfering with the war effort, which a formal hearing might entail. (H. Rep. (fn. 11, *supra*), p. 2.)

That such a procedure was intended to be a conference which might preclude litigation is substantiated by Section 3 of the Act, which allows the department or agency concerned to settle with the patent owner whether or not a royalty adjustment order has been issued.[29] Both the statutory language and its legislative history dispel any notion that formal evidence was to be received by the department, or that the conference was to follow the procedure of a formal hearing, or that findings were to be made.

Such an informal conference raises no constitutional question. The Constitution does not require that an owner whose property has been taken under eminent domain be given a hearing before the administrative board which initially determines the amount of compensation to be

[29] See also, H. Rep., p. 5; Hearings, p. 19 (fn. 11, *supra*).

paid, so long as he has a right to judicial review of the administrative determination, with a full hearing in the court.[30] Since the Royalty Adjustment Act permits *de novo* trial in the district courts or the Court of Claims to determine just compensation, regardless of the outcome of the conference, there can be no constitutional objection to the procedure.

2. *The Royalty Adjustment Order is proper*

An order issued under the Act is merely a means of fixing a preliminary value upon the license interest taken by the Government, and where the patent is believed to possess some value, the order is a means of making a payment "on account" of just compensation, or of settling with the licensor for his claim to compensation, if he is satisfied with the royalties fixed in the order. Such "payment on account," if any is provided for, is to be made in the form of royalties paid by the licensee to the licensor and then charged to the United States (Sec. 1). If the licensor thinks he is entitled to more, he can obtain a judicial determination *de novo* of what is "just compensation" for the uses made of his patent, and recover an appropriate judgment (Sec. 2). The order is thus merely an expression of the opinion of a Government official as to the fair value of

[30] *Bragg* v. *Weaver*, 251 U. S. 57, 59; *North Laramie Land Co.* v. *Hoffman*, 268 U. S. 276, 285–286; *Crozier* v. *Krupp*, 224 U. S. 290, 306.

the license interest appropriated by the Government, without any binding effect upon the courts.

Indeed, provision for an order and advance payment could validly have been omitted from the Act. The 1910 Act as amended did not contain such a provision, but was nevertheless held valid because "adequate means" were "provided for a reasonably just and prompt ascertainment and payment of the compensation * * *," *Crozier* v. *Krupp*, 224 U. S., at 306; see *Hurley* v. *Kincaid*, 285 U. S. 95, 104.[31] This has also been done in Section 2 of the Royalty Adjustment Act.

The administrative officer charged with the function of fixing the royalties which the Government permits to be paid under the Act is, of course, entitled to take into account any factors bearing upon the value of the use of the invention. One such factor is the probable validity of the patent; if the officer deems the

[31] In the words of the court below (R. 119):
"the result [of the opportunity to present relevant data to the federal agency] does not bind the patent owner. By the express terms of the statute he is entitled to sue for what he believes himself to be entitled and the conclusions of the administrative officer are in no way binding upon him or the court. Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it. The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right and when its results are not binding upon the patent owner if he later seeks compensation through court action."

patent to be of dubious validity, he may properly prescribe a zero royalty rate. But this has no effect upon the patent's validity. In a suit for just compensation, if the Government asserts invalidity as its defense, the issue must be heard and decided by the court *de novo*, and the royalty adjustment order will be of no relevance.[32]

It is, of course, clear that the validity of the patent was regarded by the sponsors of the Act as a proper subject of inquiry in determining the amount of royalty to be fixed in a royalty adjustment order. Colonel Vanderwerker, testifying for the War Department at the hearings before the House Committee, stated:

> * * * there might be determination that the Government would feel that it would not pay any royalties. Validity might be one. There might be other reasons. Title, ownership, scope of the claims; validity—any number of things which would all be taken into consideration at the time the determination was made.
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> * * * * * *
>
> I should hesitate, Congressman, very much before I would advise the Secretary of War to pay a royalty under a patent

[32] The procedure adopted in the Royalty Adjustment Act—a preliminary administrative determination of just compensation, with a right to a subsequent judicial trial *de novo*—is not novel. See, for example, the Act of October 16, 1941, as amended, 50 U. S. C. App., Supp. III, §§ 721, 636, 636a, which permits the President, upon making certain findings, to requisition military materials for the United States.

> that I knew was invalid or had reason to believe was invalid. After all the Secretary is charged with the responsibility of the expenditure of public funds. I would hesitate very decidedly to advise him to pay if I thought that the patent was invalid. (Hearings, fn. 11, *supra*, p. 71.)

Petitioner erroneously asserts that the Royalty Adjustment Order in this case will "permit the private enrichment" of respondent at petitioner's expense (Pet. Br. 34). This contention is apparently based upon the mistaken notion that respondent may decline to pay to petitioner royalties already collected from the United States and may retain those royalties as against the Government. The Royalty Adjustment Order directed respondent to pay no royalty whatever to petitioner under the license agreement on account of manufacture, use or sale for the United States, including "the balance of any royalties, accrued * * * on account of supplies, equipment or materials delivered to or for the War Department * * * and which * * * on the effective date of [the notice from the War Department declaring such royalties excessive] were due and payable to Licensor but were unpaid." As to accrued royalties which had already been passed on to the Government, the Order directed respondent to return such amount to the Treasurer of the United States; as to royalties which had not yet accrued or been passed on to the

Government, respondent was directed to reduce the contract price to the War Department or its contractors or subcontractors "to the extent necessary to give the War Department the full benefit of the [ordered] reduction in royalty rates" (R. 93–96). Thus, as required by the Act (Secs. 4 and 7), all royalties on Government production not paid to petitioner prior to the notice will be eliminated as a charge to the Government, by way of refund if already collected, otherwise by way of a reduction in the contract price. To the extent that royalties which are not chargeable to the United States have accrued or may hereafter accrue, Royalty Adjustment Order No. W–3 does not and was not intended to apply, and would not preclude a suit by petitioner against respondent to recover such royalties. See pp. 86–87, *infra*.

3. *The notice and "hearing" were in all respects proper*

In any event, there is no merit in petitioner's complaint that the "hearing" did not correspond to the notice, or that the validity of the patent was improperly taken into account in determining the royalty rate to be allowed administratively (Pet. Br. 49–60, 64, 76). On December 30, 1942, Major General L. H. Campbell, Jr., Chief of Ordnance, wrote petitioner in behalf of the War Department that—

> Pursuant to the Act of October 31, 1942 * * *, notice is hereby given that the royalties now being paid by the United States under [petitioner's patent] are believed to be unreasonable or excessive. It is understood that these royalties are being paid by virtue of an agreement between [respondent as licensee and petitioner as licensor.]
>
> * * * * * *
>
> Under the Act the licensee or the licensor * * * may * * * present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act. (R. 106.)

Petitioner's President, William Schenck, replied on January 8, 1943, acknowledging receipt of the notice, and stating:

> We * * * feel certain that a full discussion of the facts will enable you to alter your belief. We accordingly request a hearing as soon as possible wherein the facts known to us may be presented to you. (R. 107–108.)

Subsequently, on January 13, 1943, Lt. Col. Charles H. Herrstrom of the Ordnance Department advised petitioner that the parties in interest would be afforded an opportunity to make their presentation on February 8, 1943 (R. 108–109). And at that time, petitioner's representatives recognized that the validity of the patent

was directly related to the reasonableness of the royalties and, accordingly, a matter properly to be considered by the Board fixing the royalty rates. During the proceedings, the following colloquy occurred (R. 72–73):

> Mr. SCHENK [Petitioner's President]. The main question is whether or not these royalties are excessive.
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> Major COCKRELL [Presiding Officer of Board]. Any royalty is excessive if the patent is invalid.
>
> Mr. FARLEY [Petitioner's Counsel]. I think I would agree to that. * * *

This leaves no doubt that the War Department did not surprise petitioner as to the nature and issues of the proceedings, and that petitioner received all the privileges intended by the Act.

II

THE ROYALTY ADJUSTMENT ACT IS ALSO SUSTAINABLE AS A REGULATION UNDER THE FEDERAL WAR POWERS

As emergency legislation of a temporary nature, enacted to meet the needs of a great crisis, the Royalty Adjustment Act finds independent support in the Federal war powers. Congress has the constitutional power to "wage war successfully" by "the harnessing of the entire energies of the people in a supreme cooperative effort to preserve the nation." *Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398, 426. The

war powers are "not limited to victories in the field;" they include the ability to "remedy the evils which have arisen from [the war's] rise and progress." *Stewart* v. *Kahn*, 11 Wall. 493, 507; *Hamilton* v. *Kentucky Distilleries Co.*, 251 U. S. 146, 161.

The relationship of the Act to the war powers of Congress is clear from its face. The announced objective of the Act is "to aid in the successful prosecution of the War" (Sec. 1); the "fair and just" royalty preliminarily fixed by the head of the department concerned is to take "into account the conditions of wartime production" (Sec. 1); and the Act is applicable only "during the continuance of the present war and for six months after the termination thereof" (Sec. 7). Moreover, it applies only to uses of patented inventions in connection with "supplies, equipment, or materials * * * delivered to or for the Government." The House Committee reported that passage of the Royalty Adjustment Act was "necessary and desirable for the efficient prosecution of the war." H. Rep. (fn. 11, *supra*), p. 6.

The Act exemplifies the Congressional determination that the war effort will be served by a statute designed to (1) prevent excessive charges to the Government for war production, (2) place all uses of patented inventions, licensed and unlicensed, on the same basis of reasonable compensation, and (3) prevent windfalls to patent own-

ers attributable solely to the tremendous increases in war production. Since it is plainly impossible to characterize this determination as arbitrary or without any rational basis, or to condemn the means invoked as inappropriate to the desired ends, settled principles support the Act as a war-time regulation (*Block* v. *Hirsh*, 256 U. S. 135), or as emergency legislation designed to meet peculiar economic conditions (*Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398).

A. THE ROYALTY ADJUSTMENT ACT IS A VALID PRICE-FIXING MEASURE

The Act and Order may conceivably reduce the return to petitioner under its license agreement. Instead of the right to the stipulated royalties from his licensee on account of use of the invention for the Government, the licensor is limited to the recovery of "fair and just compensation" from the United States. There is, of course, nothing to preclude allowance by the Court of Claims or the district court of the full royalty stipulated in the license, if the court finds the patent valid and determines that the fair value of the use of the invention, "taking into account the conditions of wartime production," is the royalty rate agreed to by licensor and licensee. But to the extent that recovery of "just compensation" produces a lesser return to the patent owner than the royalty rate stipulated in the license, the Royalty Adjustment Order fixes a maximum "price" for the use of the invention in govern-

ment production. The consequent reduction in the value of the licensor's patent is a result of, but not an objection to, the price regulation.

In *Yakus* v. *United States*, 321 U. S. 414, and *Bowles* v. *Willingham*, 321 U. S. 503, this Court upheld certain provisions of the Emergency Price Control Act of 1942 (56 Stat. 23, 50 U. S. C. App., Supp. III, § 901), together with regulations which the Price Administrator had promulgated thereunder, establishing maximum prices for meat and maximum rent for dwellings. In the *Willingham* case, this Court said (321 U. S. at 517–519):

> * * * price control, the same as other forms of regulation, may reduce the value of the property regulated. But, as we pointed out in the *Hope Natural Gas Co.* case (320 U. S. p. 601), that does not mean that the regulation is unconstitutional. * * *
>
> * * * We need not determine what constitutional limits there are to price-fixing legislation. Congress was dealing here with conditions created by activities resulting from a great war effort. *Yakus* v. *United States, supra.* A nation which can demand the lives of its men and women in the waging of that war is under no constitutional necessity of providing a system of price control on the domestic front which will assure each landlord a "fair return" on his property,

This reasoning is applicable here. Congress may validly regulate, at a generally reasonable level, the price of food and shelter in order to prevent profiteering and inflation resulting from a shortage of housing facilities or commodities—"conditions created by activities resulting from a great war effort." It seems clear that Congress may likewise regulate, at a reasonable level, the price (royalties) payable by its war contractors for the use of patented inventions and chargeable to the public treasury. No less than the price fixing under the Emergency Price Control Act, the Royalty Adjustment Act would prevent profiteering and the inflationary effect of excessive or exorbitant procurement costs. Such control over royalties chargeable to the Government in time of war was explicity invoked by Congress "to aid in the successful prosecution of the War" (Sec. 1).

The objectives of these statutes are indeed strikingly similar. One purpose of the Emergency Price Control Act is "to assure that defense appropriations are not dissipated by excessive prices" (Sec. 1 (a)),[23] and the Royalty Adjustment Act is likewise aimed at preventing excessive charges to the Government resulting from

[23] It has been administratively held that maximum prices apply to Government contracts and that price orders override earlier contract prices. Pike and Fischer, O. P. A. Service (Price Control, Rationing, Rent), p. 36: 1906.

wartime conditions and likely to impair the effective and successful prosecution of the war.[34]

1. *The Act may properly apply to existing licenses*

It is well settled that a regulation enacted under one of the powers granted to the Federal Government is not objectionable merely because it sets aside or reduces the value of a prior private contract. Numerous examples of this principle are available.

A private contract for an attorney's fee of 50 per cent of recovery on a claim against the Government cannot be enforced in the face of a subsequent statute limiting the recovery to 20 per cent. *Capital Trust Co.* v. *Calhoun*, 250 U. S. 208; see also, *Calhoun* v. *Massie*, 253 U. S. 170. Private agreements to pay debts in gold cannot preclude Congress from subsequently for-

[34] It is, of course, no objection that the regulation of royalties under the Royalty Adjustment Act is limited solely to manufacture or use for the Government. Under the doctrine of the *Yakus* and *Willingham* decisions, Congress could validly have authorized the administrative reduction of royalties to a reasonable level, whether they were payable by a Government contractor or by any other licensee. A patent owner can hardly complain that Congress has exercised less than its fullest powers. In any event, there is a reasonable basis for thus limiting the regulation. A royalty rate fixed with regard to peacetime uses will generally become excessive only where the invention is one whose use is greatly multiplied by the needs of war, and such needs are of course met by government production and procurement.

bidding gold payments. *Norman* v. *B. & O. R. R. Co.*, 294 U. S. 240. Rental contracts are subject to subsequent alteration of their terms. *Block* v. *Hirsh*, 256 U. S. 135; *Marcus Brown Co.* v. *Feldman*, 256 U. S. 170; *Bowles* v. *Willingham*, 321 U. S. 503. A private agreement for a lifetime free pass may be nullified by a subsequent statute forbidding such passes. *Louisville & Nashville R. R.* v. *Mottley*, 219 U. S. 467. The Government may prescribe a tariff different from that lawfully agreed upon between shippers and carriers. *New York* v. *United States*, 257 U. S. 591, 601. Other instances are readily to be found.[35] And in the exercise of its war powers, Congress is no more to be fettered by "existing arrangements", than in the exercise of its powers over interstate commerce. Cf. *Sproles* v. *Binford*, 286 U. S. 374, 390–391.

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[35] In the exercise of their police power, the states can compel a modification of existing contracts, public as well as private. *Stone* v. *Mississippi*, 101 U. S. 814; *Butchers' Union Co.* v. *Crescent City Co.*, 111 U. S. 746; *Newton* v. *Commissioners*, 100 U. S. 548; *Beer Co.* v. *Massachusetts*, 97 U. S. 25; *Illinois Central R. R.* v. *Illinois*, 146 U. S. 387; *Chicago & A. R. R.* v. *Tranbarger*, 238 U. S. 67. They may modify the terms of mortgages in an economic crisis (*Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398). The federal war power is at least as broad as the states' police power (*Hamilton* v. *Kentucky Distilleries Co.*, 251 U. S. 146, 156), and under that power the states' authority "is not limited to health, morals, and safety. It extends to economic needs as well." *Veix* v. *Sixth Ward Building & Loan Association* 310 U. S. 32, 38–39.

2. *The Act may properly apply to royalties accruing prior to its passage*

As discussed earlier (pp. 37–42), the Act was intended to apply, *inter alia*, to royalties which had accrued prior to the Act, but which had not been paid to the licensor before the Government gave notice that such royalties were excessive. There can be no question of the power of Congress to reduce such royalties to a fair and just amount in so far as they are chargeable to the United States. Congress may, "consistently with the Fifth Amendment, impose for a permitted purpose, restrictions upon property," even though this "results in serious depreciation of property values." *Calhoun* v. *Massie*, 253 U. S. 170, 175. Such depreciation does not constitute a taking in the constitutional sense, and this is true even if the effect of the regulation is to deprive property of all or substantially all its value. *Mugler* v. *Kansas*, 123 U. S. 623, 664, 668–669; *Omnia Co.* v. *United States*, 261 U. S. 502; cf. *North American Co.* v. *Securities and Exchange Commission*, 133 F. 2d 148, 154 (C. C. A. 2), certiorari granted, 318 U. S. 750, pending on special calendar, No. 1, this Term.

The vulnerability of accrued royalties to subsequent Federal legislation enacted in a sphere of Federal power is merely an application of these principles. Since private contract rights must give way to later acts of Congress, any rights

which may have accrued under such contracts must likewise yield. This is readily apparent from decisions of this Court in analogous situations.

In *Calhoun* v. *Massie*, 253 U. S. 170, Calhoun, an attorney, entered into a contract to perform legal services in the prosecution of certain Civil War claims against the United States. After Calhoun had performed substantially all of the services required by that contract, becoming entitled to the stipulated fees, Congress passed an Act making an appropriation for these as well as other claims arising out of the Civil War and specifically limiting attorneys' fees to 20% of the amount of any claim, which was less than the stipulated fees already earned by Calhoun. Calhoun brought suit contending "that if the act is construed as limiting the amount recoverable from a claimant upon his personal obligation, it is void as applied to contracts in existence at the time of its passage" (at 175). This Court rejected the contention and held that the limitation could validly apply to contracts entered into and even partially performed before the Act was passed. Mr. Justice Brandeis stated (at 173):

> For nearly three-quarters of a century Congress has undertaken to control in some measure the conditions under which claims against the Government may be prosecuted. * * *

(at 175):

> An appropriate exercise by a State of its police power is consistent with the Fourteenth Amendment, although it results in serious depreciation of property values; and the United States may, consistently with the Fifth Amendment, impose for a permitted purpose, restrictions upon property which produce like results. * * * The sovereign right of the Government is not less because the property affected happens to be a contract.

Since the objective of the Royalty Adjustment Act—the procurement of needed war materials from patent licensees without paying exhorbitant royalties—is clearly a "permitted purpose," the resulting "depreciation of property values" does not render the Act unconstitutional.

Another analogy is to be found in *Norman* v. *Baltimore & Ohio R. R.*, 294 U. S. 240, which involved an Act of Congress invalidating, as against public policy, stipulations in bonds or other indebtedness calling for payment in gold or gold coin of a given standard of weight and fineness. The statute in question provided that such stipulations should be dischargeable by payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender (Joint Resolution of June 5, 1933). A subsequent statute (Gold Reserve Act of 1934) then lowered the gold content of the dollar by about 40%. This Court recognized that such legisla-

tion rendered gold-clause bonds less valuable in terms of gold dollars, but ruled that the application of the Act of Congress to existing contracts could not be prevented merely because "the legislation may cause hardship or loss" (at 307). Such agreements, the Court stated, "must necessarily be regarded as having been made subject to the possibility that, at some future time, the Congress 'might so exert its whole constitutional power as to render the agreement unenforceable or to impair its value'" (at 309). And because it was not shown "that the Congress arbitrarily or capriciously decided" that these gold clauses interfered with the exertion of the Congressional power over the monetary system, Congress could properly remove the interference by invalidating the clauses (at 316).

Likewise, in *Philadelphia, B. & W. R. R. Co.* v. *Schubert*, 224 U. S. 603, this Court upheld the power of Congress, exercised in the Employers' Liability Acts, to abrogate existing contracts which made receipt of benefits by an employee under a company relief plan a bar to an action for damages against the employer. Holding that an employee who contributed to such a fund before passage of the Act, and who received a benefit therefrom after the Act became effective, was not barred by the agreement from bringing an action for damages, this Court said (at 613–614):

> The power of Congress in its regulation of interstate commerce, * * * to im-

> pose this liability, was not fettered by the necessity of maintaining existing arrangements and stipulations which would conflict with the execution of its policy. To subordinate the exercise of the Federal authority to the continuing operation of previous contracts, would be to place, to this extent, the regulation of interstate commerce in the hands of private individuals and to withdraw from the control of Congress so much of the field as they might choose by prophetic discernment to bring within the range of their agreements. The Constitution recognizes no such limitation. * * * Prior arrangements were necessarily subject to this paramount authority.

It will be noted that in all of the cases discussed above, rights under a preexisting contract had vested prior to the establishment of the regulation under attack: In the *Norman* case, the right of a bondholder to receive payment of interest or principal in gold coin or its equivalent, as agreed; in the *Calhoun* case, the right of an attorney to receive payment at stipulated rates for legal services rendered; in the *Schubert* case, an employer's contractual right to be immune from suit by an employee. Yet in all of these cases, the subject matter of the rights being within the power of Congress, this Court upheld the validity of legislation cancelling or reducing the value of those vested rights.

The same principles apply here. The right of a licensor to royalties for the use of his patented

invention derives from a grant under Congressional authority; the use of his invention by Government contractors in connection with war production relates directly to the war effort. Consequently, private contracts stipulating for patent royalties on account of such war use of the invention are peculiarly within the area of federal power and subject to its operation. Whatever the value of petitioner's license rights against respondent when the Act was passed, and whatever the extent to which those rights had "accrued," Congress saw fit, in the exercise of its Constitutional powers, to decline to pay excessive royalty charges and instead to place the cost of licensed war production for the Government on the same footing as unlicensed production. This policy Congress chose to apply to all unpaid royalties chargeable to the Government, whether they accrued before or after the Act. The reduction, if any, in the value of the licensor's right under his license agreement as a result of this legislation no more invalidates it than did the reduction in the value of the accrued contractual rights in the cases mentioned above.

B. THE ACT SATISFIES THE "DUE PROCESS" REQUIREMENTS APPLICABLE TO PRICE-FIXING LEGISLATION

The Royalty Adjustment Act meets the due process requirement of a fair hearing in the same manner which this Court found to be sufficient in the Price Control Act, that is, by providing for

judicial review of the action taken by the administrative official. Indeed, in this respect the Royalty Adjustment Act is more favorable to the property owner than the Price Control Act. Judicial review under the Price Control Act is limited to determining whether the regulation is "not in accordance with law, or is arbitrary or capricious" (Sec. 204 (b); 50 U. S. C. App., Supp. III, § 924 (b)). This means that a price or rent regulation which complies with the statutory requirements, and is not arbitrary or capricious, is valid even though the individual property owner may obtain less than a "fair return on his property." *Bowles* v. *Willingham*, 321 U. S. 503, 516–519. The regulation may not be set aside merely because the court considers some other price or rent level to be more "fair and equitable" than that selected by the Administrator. Under the Royalty Adjustment Act, on the other hand, the patent owner is given the right to a judicial determination of whether the royalty rate prescribed in the order gives him "fair and just compensation"; and if the court should differ on this point with the executive agency which had issued the order, the United States stands liable for the difference. This additional right to sue the United States is not constitutionally required to accompany an exercise of Congressional regulation. Cf. *Bowles* v. *Willingham*, 321 U. S. 503; *Yakus* v. *United States*, 321 U. S. 414.

It is likewise clear that the Royalty Adjustment Act contains adequate criteria to guide the executive and judicial authorities. A rate statute may validly require that the rate fixed by governmental order be "just and reasonable" as applied to particular persons or companies. Cf., *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591; see also *Bowles* v. *Willingham, supra*, at 516–519. The Royalty Adjustment Act readily meets this test by requiring that the royalty rate fixed in the order be "fair and just" for the particular patent owner, "taking into account the conditions of wartime production" (Sec. 1).

Moreover, the courts may allow an additional recovery against the United States, if necessary to make the total compensation to the patent owner "fair and just" (Sec. 2). This feature alone would be an adequate standard for administrative regulation. In *Levy Leasing Co.* v. *Siegel*, 258 U. S. 242, this Court upheld, as a valid exercise of the state's police power, a New York statute which limited the recovery of a landlord against his hold-over tenant to a "reasonable rental, to be determined by the courts." This Court ruled that such a standard was "sufficiently definite to satisfy the Constitution" (258 U. S. at 250).

III

The Royalty Adjustment Act Was Properly Applied in This Case

The Royalty Adjustment Act applies only to "royalties directly or indirectly charged or chargeable to the United States" (Sec. 7.). The Royalty Adjustment Order No. W–3 issued under the Act was plainly restricted to such royalties (R. 93–96). Petitioner now contends (Br. 77–83) that the royalties accruing on all but two types of transfer cases were not "charged or chargeable" to the Government by respondent;[36] that the Government's direction to respondent not to pay such royalties to petitioner results in unjustly enriching respondent at petitioner's expense, without any benefit to the Government or the public; and that, in any event, the Act is defective in not requiring an investigation and hearing to determine whether a contemplated royalty adjustment

[36] The transfer cases which petitioner contends were not covered by royalties chargeable to the Government included all transfer cases which the district court held not to fall within the license agreement (Par. 5 of judgment), as to which petitioner appealed to the court below. They also included all but two types of transfer cases which the district court held to fall within the license agreement (Par. 4 of judgment), as to which respondent did not appeal (R. 49–51).

order would cover royalties chargeable to the Government.[87]

These contentions are based upon a factual error, but in any event are irrelevant to the central point in this case—the validity of the Royalty Adjustment Act and the Order issued thereunder. As we will show herein, all the royalties involved in the instant suit have been charged or will be charged by respondent to the United States, except in so far as such royalties are refunded to the United States in reductions in the contract price pursuant to the Royalty Adjustment Order. But even assuming that some or most of the royalties in question are not chargeable and have not been charged to the United States, the record definitely shows that some royalties involved in the appeal were so charged or chargeable; both parties apparently agreed that this was so; petitioner first challenged the constitutionality of the Royalty Adjustment Act in the court below when it was set up by respondent as a ground for dismissing the appeal; and even now petitioner concedes that "the consti-

[87] Petitioner also contends that certain royalties which were collected by respondent from the Government, but not paid to petitioner prior to the date of the notice (December 30, 1942), are not required by the Order to be returned to the Government (Br. 78). This misreading of the Order is more fully discussed, *supra*, pp. 56–57.

tutionality of the law is placed squarely before this Court" (Pet. Br. 23). Since there is plainly some application of the Act and Order to the subject matter of the appeal before the court below, which dismissed the appeal on the ground that the Act and Order had rendered it moot, the question of the validity of the Act was properly presented below and is properly before this Court.

The disposition of the matter by the court below would indeed prevent any prejudice to petitioner, whether or not all the royalties in suit were charged or chargeable to the United States. To the extent that any transfer cases were made or sold by respondent for nongovernmental purposes, and to the extent that royalties on transfer cases sold for governmental purposes were not charged and are not chargeable to the United States, the Royalty Adjustment Order is inapplicable and the order of the court below leaves the district court free to proceed with the suit as to all such royalties. That court may conduct an accounting as to any nonchargeable royalties falling under Paragraph 4 of the judgment (which held certain transfer cases to be covered by the license), and determine whether any nonchargeable royalties were included under Paragraph 5 of the judgment (which held the remaining transfer cases to be outside the license). If any transfer cases subject to nonchargeable royalties are found to be involved under Paragraph 5, the validity of the district court's decision on the

merits may then properly come before the circuit court of appeals for review.

The chargeability of at least some of the royalties involved is best to be seen from a chronological resume of the proceedings in the War Department and in this suit. Some of the relevant material is not in the record, since in the court below, where the Royalty Adjustment Order was first asserted as a ground for dismissal of the appeal, petitioner did not question the application of the Order to all the royalties involved until after the decision was handed down. The point was first raised by petitioner in its petition for rehearing (R. 122–129), and respondent's reply to this petition denied that all the royalties involved were not chargeable to the Government.[38] Consequently, there are set forth in Appendix C to this brief (*infra*, pp. 100–107) the documents which, together with material in the record, show the concurrence by both the respondent and the War Department in the view that royalties payable to petitioner on any of the transfer cases involved in this suit have been or will be passed on to the United States.

A. ALL THE ROYALTIES INVOLVED IN SUIT WERE CHARGED OR CHARGEABLE TO THE UNITED STATES

On December 12, 1942, after the Royalty Adjustment Act had become law, and after the

[38] This reply is not in the record, but a copy can be furnished to the Court on request.

district court had held the license applicable to some and inapplicable to other transfer cases, the Patent Branch of the Detroit Ordnance District, War Department, recommended to the Office of the Chief of Ordnance that the Act be invoked "to eliminate, in the purchase of transfer cases, the payment of any royalty" under the license agreement between petitioner and respondent, because the underlying patent was believed to be invalid. The memorandum recommending such action stated:

> 4. The Government has been by far the largest user of vehicles equipped with transfer cases, over * * * vehicles having been purchased from and delivered by various manufacturers during the period beginning July 1, 1939, and terminating November 30, 1942, for which vehicles The Timken-Detroit Axle Company and other manufacturers as sub-contractors, supplied transfer cases; the price of each case supplied by The Timken-Detroit Axle Company including as one item a charge of Fifty Cents ($0.50) royalty.
>
> 5. The Timken-Detroit Axle Company, despite this collection of royalty charges from the Government, has, however, consistently refused to pay Alma Motor Company royalty upon any except a very few of such transfer cases on the ground that those claims of the Ruggles and Smith Patent which are readable upon the remaining transfer cases are not valid. (Appendix C, p. 103, *infra.*)

On December 23, 1942, the Detroit Ordnance District again wrote the Chief of Ordnance, stating that:

> * * * Mr. J. E. Gallagher of the Patent Department of the Timken Company reports that the number of cases which come within the scope of the Ruggles and Smith Patent according to Judge Kirkpatrick's decision exceeded * * * units. On these units we have, it is understood, paid a royalty charge of fifty-cents (50¢) per unit. The number of transfer cases which do not come within the scope of the Ruggles and Smith Patent under Judge Kirkpatrick's decision is, it is believed, substantially more than * * * units on which we have also paid a royalty charge of fifty-cents (50¢) per unit. Assuming that under the notice in compliance with PR 1112 13 the Government is able to recapture the amount paid by royalty, it would be able to recapture considerably more than * * * even if it be only the amount paid on transfer units which do not come within the scope of the Ruggles and Smith Patent. (Appendix C, pp. 105–106, *infra.*)

Responding to the first recommendation, the Chief of Ordnance issued the notice of December 30, 1942 (R. 106–107), notifying petitioner and respondent "that the royalties now being paid by the United States" under the license agreement in question "are believed to be unreasonable or excessive"; and that until the issuance of a Royalty

Adjustment order "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States." The notice further stated that:

> * * * the United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement. (R. 107.)

The fund referred to in the notice was, according to a recent letter from respondent, set up "to take care of any possible judgment" in the litigation between petitioner and respondent. That letter states, in part:

> This reserve fund was set up as a business expense and has been reported as accrued liabilities in renegotiation. Renegotiation has been completed for 1942 and 1943 and the Renegotiation Board has allowed this accumulated fund as a cost or expense of doing business. (Letter of October 6, 1944, from the Treasurer of respondent to the Department of Justice, Appendix C, p. 100, *infra*.)[39]

During the proceeding of February 8, 1943, at which both respondent and petitioner were afforded

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[39] This letter also stated that "It has been the general practice of Timken to add royalties it must pay to others to the sales prices charged to customers and, until the royalty adjustment order W-3 was issued, this practice was followed on all transfer cases on which we had been advised by our counsel to pay royalties to Alma."

an opportunity to present evidence and materials bearing on the issuance of a royalty adjustment order, counsel for respondent asserted (R. 68) that royalties "were never charged on * * * the T–79" transfer cases (one of the types of transfer cases which the district court held to be excluded from the license, R. 49–50). Lt. Colonel Herrstrom, representing the War Department, then asked:

> The notice which was served included a reservation to the effect that the Government might, at some later date, seek to reach the royalties which had been accumulated in the hands of the Timken-Detroit Company and which have not yet been paid. What attitude did the company take in respect to any reservation? (R. 68).

Counsel for respondent replied:

> *That the Government is entitled to it. The royalties were charged.* The company was collecting them for the people who were entitled to them, and if the Government has paid them, it is entitled to those royalties back. (R. 68.) [Italics supplied.]

The "people who were entitled to them" were obviously either petitioner or respondent, depending on the outcome of the pending litigation; or the United States, if they were covered by the Royalty Adjustment Order. Counsel for petitioner, who was also present at this proceeding,

did not question the asserted chargeability of these royalties to the United States.[40]

Both respondent and the United States treated the reserve for royalties claimed by petitioner as a potential liability of respondent either to petitioner or to the United States, thus acknowledging that the cost had been charged to the United States.[41]

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[40] Petitioner relies upon an affidavit of August 17, 1943, by Mr. John E. Gallagher, chief of respondent's patent department (R. 60–61), submitted to the court below with respondent's motion to dismiss the appeal. The affidavit stated that "royalties have been charged [to the United States] only on T–43–P–1 and T–43–V–1 transfer cases"—which the district court had held covered by the license (R. 49–50). Mr. Gallagher was present at the proceedings before the War Department (R. 61), and made no effort to correct the statement of respondent's counsel quoted above, which was inconsistent with the affidavit.

[41] Respondent's "reserve fund," set up in 1939, had been asserted by it as a part of its cost of production, in renegotiation proceedings for the fiscal years 1942 and 1943. The Renegotiation Board of the Ordnance Department, War Department, in accordance with respondent's request, charged this fund as an item of cost against respondent's renegotiable business for the purpose of computing the overall profits to be allowed respondent on government business for those years. (See letter from respondent, Appendix C, p. 100, *infra*.) Since in computing overall profits in renegotiation, only those items of cost are allowed which are directly or indirectly chargeable to the procurement contracts of the Government, or of its contractors or subcontractors (see Renegotiation Act of 1943, § 403 (a) (B), as amended by the Revenue Act of 1943 (Public Law 235, 78th Cong., 2d sess.); Renegotiation Regulations, §§ 385–1, 388.1(6), the action of the Renegotiation Board was in effect an acknowledgment that the royalties represented by the reserve fund were chargeable to the United States.

On February 27, 1943, petitioner appealed to the court below from paragraph 5 of the district court's judgment, holding certain transfer cases outside the license (R. 51). On July 28, 1943, the War Department issued Royalty Adjustment Order W-3, directing respondent to pay no royalties to petitioner under the license agreement, and to return to the United States any royalties already collected by respondent but as yet unpaid to petitioner (including the royalties in the "reserve fund" which respondent had set up to await the outcome of its pending litigation with petitioner) (R. 93–96).[42]

In all the proceedings below up to the decision on the appeal, the assumption was uniformly made by all three parties—and by the court below—that all of the royalties involved in this suit were "charged or chargeable directly or indirectly to the United States" (Sec. 7 of the Act). After the Royalty Adjustment Order was issued, respondent moved to dismiss the appeal for mootness, alleging that it "has manufactured and sold transfer cases" under the license agreement "only to or for the use of the War Department," and that petitioner's *sole remedy* was in the Court of Claims under Section 2 of the Royalty Adjustment Act (R. 53–55). Taking as

[42] The War Department is presently contemplating taking steps for the recapture of that fund under the Royalty Adjustment Order. See War Department letter dated December 18, 1944, Appendix C, p. 101, *infra*.

factually correct the averment in respondent's supporting affidavit that all the transfer cases involved in suit were manufactured for the United States (R. 60), and assuming, as did respondent, that the royalties due upon such cases were or would be passed on to the United States, the Government filed a brief *amicus curiae*, suggesting that by virtue of the Royalty Adjustment Order an "actual controversy" no longer existed between the litigants because any royalties due petitioner were required to be paid to the United States, petitioner's remedy being a suit for compensation from the United States. The brief further suggested that the court either dismiss the appeal or suspend action thereon until an actual controversy exists between the parties (see R. 96–97).

Petitioner did not question the applicability of Royalty Adjustment Order No. W–3 to all the royalties involved in the suit, but instead filed a "Petition to Review and Vacate" the order on the ground that both it and the Act were unconstitutional (R. 98–103). That petition stated that the "obligation" of the court below "to review said Order and pass upon its constitutionality seems clearly to be inescapable" (R. 101). Upon certification by the court below that the constitutionality of an act of Congress had been challenged, the United States intervened under the Act of August 24, 1937 (28 U. S. C. § 401), for the purpose of upholding the constitutionality of the Act and Order (R. 110, 113).

On August 7, 1944, the court below rendered its decision holding the Act and Order valid (R. 112–120), dismissing the "Petition to Review and Vacate Royalty Adjustment Order No. W–3" for want of jurisdiction (R. 111–112, 119) and providing that paragraph 5 of the district court's judgment, which held certain transfer cases excluded from the license—

> is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy *again* exists between the parties * * *. (R. 120.) [Italics supplied.]

Petitioner thereupon filed a petition for rehearing on the ground, *inter alia,* that the record in the case indicated that *some* of the royalties involved therein were not "charged" to the United States within the meaning of Section 7 of the Act (R. 122–129).[13] This petition[14] did not urge the

[13] Respondent filed an opposition to this petition, asserting that "the Government is still chargeable with any royalties that this Court or the District Court can properly decree Alma should receive from Timken under the agreement in suit, regardless of whether they have been charged to date" (p. 2); that "The Government is at present subject to being charged any royalty adjudged to be due Alma on open contracts and through renegotiation" (p. 3); and that Timken has not charged to the Government "royalties for any structure it felt did not include the true invention, if any, of" petitioner's patent (p. 4). A copy of this opposition can be furnished to the Court upon request.

[14] The complete petition for rehearing is not in the record, but a copy can be furnished to the Court upon request.

court below to vacate its decision upholding the Act and Order, nor did it urge that the Order was improperly issued; it merely requested the court to modify its disposition of the case so as to permit a hearing of petitioner's appeal on the merits with respect to its right to royalties on all transfer cases sold to Government contractors and subcontractors, the sales prices of which did not include royalties (R. 12).[45]

On October 2, 1944, the court below denied the petition for rehearing (R. 130), but amended its disposition of the case (R. 129–130) by deleting the word "again" from that portion of its opinion which had vacated Paragraph 5 of the District Court's judgment (see p. 85, *supra*).

This deletion, when considered in connection with the petition for rehearing, would seem to be explainable solely as a means of eliminating the inference that a justiciable controversy may not *now* exist. Consequently, if petitioner can show, on the remand to the district court, that royalties on any of the transfer cases covered by Paragraph 5 of the judgment were not "charged or chargeable" to the United States within the contemplation of Section 7 of the Act, petitioner may then have its right to royalties adjudicated on the

[45] Petitioner concedes that the "constitutionality" of the Royalty Adjustment Act is now "squarely before this Court" (Pet. Br. 23).

merits.[46] Indeed, the opinion of the court below expressly stated that its decision upholding the Act and Order does not deprive petitioner "of the benefit of any estoppel secured by the judgment" of the District Court (R. 120).

B: THE DISPOSITION OF THE CASE BY THE COURT BELOW WAS PROPER

Petitioner argues at some length (Pet. Br. 20–30) that the disposition which the court below made of the appeal before it (R. 121) was tantamount to a ruling that the "jurisdiction of the federal courts" can be "ousted" by an order of an administrative board. Such "ouster," petitioner contends, results from (1) failure of the court below to pass upon the merits of its appeal from Paragraph 5 of the district court's judgment, which declared certain transfer cases "not dominated" by petitioner's patent and thus not subject to royalties (Pet. Br. 23–24), and (2) the "direction" to the district court to "vacate," if "it deems such action to be appropriate," those portions of the district court's judgment from which no appeal was taken to the court below (Pet. Br. 24). These contentions are wholly without merit.

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[46] A factual determination by the district court that royalties on any transfer cases in suit covered by Paragraph 5 of the judgment had not been and would not be passed on to the United States would enable the court below to receive the case on the merits.

1. *Paragraph 5 of the district court's judgment*

Prior to respondent's motion to dismiss the appeal in the court below, the only question before that court was whether Paragraph 5 of the district court's judgment had properly held that petitioner was not entitled to royalties on certain of the transfer cases manufactured by respondent. While this question was pending (R. 51), Royalty Adjustment Order W–3 was issued, ordering respondent to pay no royalties whatever to petitioner on *any* transfer cases made or sold for the Government, if such royalties were chargeable to the United States; and to return to the Treasurer of the United States all royalties which had been collected by respondent and which had not been paid to petitioner before December 30, 1942. Such an order constituted a change "in fact and law" properly cognizable by appellate court; and if it was valid, and if it covered the entire subject matter of the appeal, it would render petitioner's appeal an academic matter. Cf. *Watts, Watts & Co.* v. *Unione Austriaca di Navigazione,* 248 U. S. 9, 21. A closely analogous situation occurred in *Crozier* v. *Krupp,* 224 U. S. 290, in which a patent owner had brought a suit to enjoin infringement by a Government officer. While the case was pending in this Court on a writ of certiorari from a decision by the Court of Appeals for the District of Columbia in favor of the plaintiff, Congress enacted the 1910 Act, making the

sole remedy for such infringement a suit in the Court of Claims for compensation. This Court declined to determine the case on the issues raised in the Court of Appeals, but instead decided it on the basis of the intervening Act of Congress (224 U. S. at 302).

Since, so far as appeared to the court below, none of the royalties involved in suit could be paid to petitioner even if the the district court's decision under paragraph 5 of the judgment was erroneous, the refusal of the court below to hear petitioner's appeal on the merits, after having upheld the validity of the Order, was required by the doctrine that the judiciary will not decide moot questions. And, as noted above, the disposition of the case below permits the district court to ascertain whether any royalties on transfer cases under paragraph 5 of the judgment are not covered by the Royalty Adjustment Order, so as to enable the merits of the appeal to be considered in the circuit court.

2. *Paragraph 4 of the district court's judgment*

With apparent reference to Paragraph 4 of the district court's judgment, petitioner asserts that the "action" of the court below "in remanding the case to the District Court with the direction or mandate to the District Court that it should proceed no further in the case was tantamount to a direct ruling" that the Act and Order "had the force and effect of vitiating and rendering nugatory

the judgment of the District Court which had become final" (Pet. Br. 24). This assertion is baseless.

Paragraph 4 of the district court's judgment declared that the license agreement covered certain transfer cases (R. 49–50). No appeal was taken from that decision; hence, Paragraph 4 was not before the court below at the time respondent filed its motion to dismiss the appeal. The order of the court below, vacating Paragraph 5 of the district court's judgment, and remanding "the cause" to the trial court "with directions to proceed no further *therein* unless and until it shall appear * * * that a justiciable controversy exists between the parties arising out of the facts set forth in the complaint," can therefore apply only to Paragraph 5 of the judgment—the only portion of the judgment before the court. This is so whether the term "therein" be read to refer to "Paragraph 5 of the judgment" or to "the cause" which was remanded to the district court. Thus, the order of the court below, as we read it, does not suspend any further proceedings under Paragraph 4 of the judgment. (See reference to the "remainder" of the judgment in the order below, R. 121.) Of course, the district court would not authorize further proceedings unless it was satisfied that such proceedings were not moot.[47]

[47] Even if the order below is read as suspending proceedings under Paragraph 4 until a justiciable controversy was found to exist, the order would not be erroneous, but, to this extent, would be surplusage. The very circumstances which

Nor can there be any valid objection to the option in the district court to dismiss the complaint for mootness. It conceivably might prove inconvenient to the district court to keep the matter pending in a suspended state, especially if all of the transfer cases thus far involved in the litigation were covered by the Royalty Adjust-

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rendered moot the appeal from Paragraph 5 of the judgment rendered moot any issue under Paragraph 4, except in so far as it may have included royalties not covered by the Royalty Adjustment Order. At this time, Paragraph 4 merely adjudged that certain transfer cases were embraced by the license, and authorized an accounting for the amount of royalties due unless this was stipulated by the parties (Par. 6, R. 50–51). Unless Paragraph 4 did cover royalties outside the Royalty Adjustment Order, it would have been meaningless for the district court to proceed to such a determination, for the district court would be as powerless as the court below to decide a nonjusticiable controversy. The order to suspend further proceedings, even as to Paragraph 4, was thus little more than an observation to the district court that its jurisdiction over the case pending before it could be exercised in further proceedings only if a justiciable controversy existed—i. e., only if some of the royalties involved were not covered by the War Department's order.

In any event, there would be no interference with vested rights under a judgment. Since "an accounting was necessary to bring the suit to a conclusion upon the merits," Paragraph 4 of the district court's judgment was not final, and no rights had "vested" thereunder. See *Simmons Co.* v. *Grier Bros. Co.*, 258 U. S. 82, 89; see also, *Marconi Wireless Co.* v. *United States*, 320 U. S. 1, 47. Moreover, the Royalty Adjustment Act became law more than a month before the district court's judgment was entered, thus apprising all concerned that a notice and order might be issued thereunder at any time in respect of all accrued royalties which were unpaid at the time of the notice.

ment Order. While commercial production would presumably commence after the war—or possibly even before that time—such production could be the subject matter of a new complaint. It was no abuse of discretion, therefore, to have permitted the district court, if it found such action appropriate, to dismiss the entire complaint for mootness, leaving the parties free to institute suitable proceedings when a justiciable issue should be presented. Cf. *Crozier* v. *Krupp*, 224 U. S. 290.

CONCLUSION

It is respectfully submitted that the judgment below should be affirmed.

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APRIL 1945

APPENDIX A

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. III, §§ 89–96) reads as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided,*

however, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent

jurisdiction with the Court of Claims, to recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a cor-

responding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act

shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (*l*) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

APPENDIX B

The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. § 68) reads as follows:

> Whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however,* That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further,* That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise.

APPENDIX C

LETTERS AND MEMORANDA

(1)

THE TIMKEN-DETROIT AXLE COMPANY,
GENERAL OFFICES, *100–400 Clark Avenue,*
Detroit 32, Michigan, October 6, 1944.

Hon. FRANCIS M. SHEA,
Assistant Attorney General,
Department of Justice, Washington, D. C.

Attention: Mr. David L. Kreeger.

Re: Timken vs. Alma Motors—No. 8300—
Circuit Court of Appeals for the Third
Circuit.

DEAR SIR: In reply to your request, I am setting forth the accounting practices followed by The Timken-Detroit Axle Company with respect to possible royalties on all transfer cases involved in the appeal in the above-entitled matter.

It has been the general practice of Timken to add royalties it must pay to others to the sales prices charged to customers and, until the royalty adjustment order W–3 was issued, this practice was followed on all transfer cases on which we had been advised by our counsel to pay royalties to Alma.

Because of the contentions made by Alma as to royalties due on cases on which we were advised it was not properly entitled to royalties, in September 1939 we began to set up a reserve fund to take care of any possible judgment in this litigation.

This reserve fund was set up as a business expense and has been reported as accrued liabilities in renegotiation. Renegotiation has been completed for 1942 and 1943 and the Renegotiation Board has allowed this accumulated fund as a cost or expense of doing business.

Yours very truly,

[s] A. I. HAWKINS,
A. I. Hawkins,
Treasurer.

L

(2)

SPOGL
SPOMJ-D

Ely/dc
2579-30th fl.

18 December 1944.

Subject: Timken-Alma Royalty Adjustment Order W-3.

To: Detroit Ordnance District, 1832 National Bank Building, Detroit 32, Michigan.
Attn: Patent Section, Legal Branch.

1. Attached hereto is a photostatic copy of a letter dated 6 October 1944 from the Timken-Detroit Axle Company to the Department of Justice referring to the accounting practice respecting royalties payable to Alma. It appears from such letter that it was the general practice of Timken to add such royalties to the sales price charged customers, until Royalty Adjustment Order W-3 was issued. It further appears that Timken-Detroit Axle Company has a reserve fund to take care of any possible adjustment in this litigation, but in view of the fact that the litigation has been terminated by the Circuit Court of Appeals for the Third Circuit, it is considered that no reserve is necessary.

2. It would further appear that steps should be taken by your office to recapture the reserve which is now no longer necessary.

3. Attached hereto is a photostatic copy of the report of the decision of the Circuit Court of Appeals, Third Circuit, in the above matter; such decision having been reported in 62 USPQ, page 263.

4. It is to be recalled that Mr. I. Joseph Farley is of counsel for Alma, and if necessary, your office can confirm that the Timken-Alma litigation is at an end as far as Government business is concerned.

By order of the Chief of Ordnance:

(S) D. J. CLIFFORD,
Lt. Col., Ord. Dept., Assistant.

2 Incls—
Incl 1—cy memo 11-22-44 w/incl.
Incl 2—cy Decision.

(3)

WAR DEPARTMENT, TANK AND AUTOMOTIVE CENTER,
UNION GUARDIAN BLDG.,
Detroit, Mich., December 12, 1942.

SPOM—Legal Branch
Patent Section

Subject: Public Law #768.

To: Office of the Chief of Ordnance, Pentagon Building, Washington, D. C.

Attention: Legal Branch.

1. It is respectfully requested that, the necessary procedure based upon the provisions of the above Public Law be initiated to eliminate, in the purchase of transfer cases, the payment of any royalty for the use of the features claimed in the Ruggles and Smith Patent #2,173,044, granted September 12, 1939.

2. The above patent is owned by the Alma Motor Company of Alma, Michigan, and under a license agreement between that Company and The Timken-Detroit Axle Company of Detroit, Michigan, dated May 26, 1938, The Timken-Detroit Axle Company was licensed to manufacture and

sell transfer cases embodying the improvements disclosed in the application which matured into said Ruggles and Smith Patent and agreed to make, from and after the date on which such patent issued, royalty payments varying in amounts from Fifty Cents ($0.50) per unit to One Dollar and Fifty Cents ($1.50) per unit depending upon the gross weight of the vehicle in which the unit is to be installed.

* * *

4. The Government has been by far the largest user of vehicles equipped with transfer cases, over * * * vehicles having been purchased from and delivered by various manufacturers during the period beginning July 1, 1939 and terminating November 30, 1942, for which vehicles The Timken-Detroit Axle Company and other manufacturers as sub-contractors, supplied transfer cases; the price of each case supplied by The Timken-Detroit Axle Company including as one item a charge of Fifty Cents ($0.50) royalty.

5. The Timken-Detroit Axle Company, despite this collection of royalty charges from the Government, has, however, consistently refused to pay Alma Motor Company royalty upon any except a very few of such transfer cases on the ground that those claims of the Ruggles and Smith Patent which are readable upon the remaining transfer cases are not valid.

6. This position by The Timken-Detroit Axle Company led to the filing of a suit by The Timken-Detroit Axle Company against the Alma Motor Company in the District Court of the United States, for the District of Delaware, under the Declaratory Judgment Act seeking as relief that the Court hold—

(a) The Ruggles and Smith Patent is invalid,

(b) The Transfer cases in question do not come within the claims of such patent, and

(c) The plaintiff is not bound to pay royalties upon such cases.

Judge Kirkpatrick, before whom the case was tried, has handed down a decision in which the above three requests were treated as follows:

(a) The validity of the Ruggles and Smith Patent was expressly not adjudicated on the ground that the plaintiff as a licensee is estopped to contest validity,

(b) The various transfer cases supplied by plaintiff for Governmental use were divided into two groups, those which do come under the claims of the Ruggles and Smith Patent and those which do not. (The Timken-Detroit Axle Company is the chief source of supply for the transfer cases forming the first group but not for the transfer cases forming the second group) and

(c) Plaintiff is bound to pay royalties upon those transfer cases in the second group which it supplied.

7. One of the primary reasons for the contention of invalidity is that, if there be any invention in the transfer cases disclosed in the Ruggles and Smith Patent, such invention was made not by Ruggles and Smith but by Mr. Robert F. Brown, an engineer in the employ of the U. S. Government.

8. Mr. Brown was, in March, 1933, stationed at Holabird Quartermaster Depot, Baltimore, Maryland and on March 24, 1933, made and signed a drawing of a new transfer case, a print of which drawing is attached. Shortly after this drawing was made Mr. Brown disclosed it to Mr. Petersen of the Brown-Lipe Division of the Spicer Manufacturing Corporation by which a transfer case embodying Mr. Brown's ideas was built and installed in a White truck which was delivered to Holabird Quartermaster Depot in November, 1933.

9. For the reasons set forth in the accompanying opinion it is believed that the Ruggles and Smith Patent is invalid and that the Government should be relieved from the requirement of pay-

ing royalty upon any transfer cases of the type in question, in accordance with the provisions of the above Public Act.

For the Deputy Chief of Ordnance:

D. J. CLIFFORD,
Major, Ord. Dept., Assistant.

1 incl—
Printed dwg., Brown 3/24/33.

NOTE: Matter deleted is irrelevant to this case.

(4)

WAR DEPARTMENT, TANK AND
AUTOMOTIVE CENTER,
UNION GUARDIAN BLDG.,
Detroit, Mich., December 23, 1942.

SPOM—Legal Branch
Patent Section

Subject: Timken-Detroit Axle Company vs Alma Motors

To: Office, Chief of Ordnance SPOGL, Pentagon Building, Washington, D. C.

ATTN: Major Charles E. Herrstrom.

* * *

3. The total number of transfer cases supplied the Government indirectly by the Timken-Detroit Axle Company has not been determined although a request for such information has been made to the Timken Company. Mr. J. E. Gallagher of the Patent Department of the Timken Company reports that the number of cases which come within the scope of the Ruggles and Smith Patent according to Judge Kirkpatrick's decision exceeded * * * units. On these units we have, it is understood, paid a royalty charge of fifty-cents (50¢) per unit. The number of transfer cases which do not come within the scope of the Ruggles and Smith Patent under Judge Kirkpatrick's decision is, it is believed, substantially more than * * * units on which we have also paid

a royalty charge of fifty-cents (50¢) per unit. Assuming that under the notice in compliance with PR.1112.13 the Government is able to recapture the amount paid by royalty, it would be able to recapture considerably more than * * * even if it be only the amount paid on transfer units which do not come within the scope of the Ruggles and Smith Patent.

* * *

For the Deputy Chief of Ordnance:

Signed C. S. WALKER,
Chief, Patent Section.
J. J. CLIFFORD,
Major, Ord. Dept., Assistant.

2 Incls—
Incl 1—Cpy of Contract #W-398-qm-12331.
Incl 2—Cpy of Patent Assignment.

NOTE: Matter deleted is irrelevant to this case.

(5)

WAR DEPARTMENT,
OFFICE OF THE UNDER SECRETARY,
Washington, D. C., 11 April 1945.

Honorable FRANCIS M. SHEA,
Assistant Attorney General,
Department of Justice,
Washington 25, D. C.

Re: *Alma Motor Company* v. *The Timken-Detroit Axle Company, United States, Intervenor,* No. 806, United States Supreme Court, October Term 1944.

MY DEAR MR. SHEA: Reference is made to your letter of April 10, 1945, inquiring as to the monetary savings to the Government which may have resulted from royalty adjustment orders and royalty adjustment agreements made by the War and Navy Departments pursuant to the Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013; 35 U. S. C. '89-96). Up to March 31, 1945, it is estimated that more than $128,000,000 has been

saved to the War and Navy Departments as a result of orders and agreements made pursuant to this Act. This represents both actual cash refunds from the licensees and licensors, insofar as excessive royalties had been collected from or charged to the United States, and reductions in the contract price of subsequent Government procurement, insofar as the royalties had not yet been passed on to the United States. In some cases, contract prices are not reduced, but the benefit of reduction in royalties is secured by a continuing refund to the Government.

The actual savings realized by the War and Navy Departments are, however, substantially in excess of the above figure. In a great number of instances in which compromises or settlements are made with patent owners under the Royalty Adjustment Act, reducing royalties charged or chargeable to the United States, the patent owner, as part of the settlement, releases all claims against the United States for past and future infringement under the Act of June 25, 1910 as amended (35 U. S. C. 68). The monetary savings effected by the release of such claims has been included in the above figure only to the extent that contractors have refunded to the Government reserves set up by them to pay liabilities released as above described. There is no doubt that the additional savings from the release of claims is substantial.

These savings are, of course, subject to reduction by the amounts which the patent owners in question may recover as "fair and just compensation" under Section 2 of the Act, in respect of royalty adjustment orders issued to date.

Sincerely,

(S) ROBERT P. PATTERSON,
Under Secretary of War.

(S) H. STRUVE HENSEL,
Assistant Secretary of the Navy.

U. S. GOVERNMENT PRINTING OFFICE: 1945

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CLERK

No. 11

In the Supreme Court of the United States

OCTOBER TERM, 1946

ALMA MOTOR COMPANY, PETITIONER

v.

THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES ON REARGUMENT

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In the Supreme Court of the United States

OCTOBER TERM, 1946

No. 11

ALMA MOTOR COMPANY, PETITIONER

v.

THE TIMKEN-DETROIT AXLE COMPANY, RESPONDENT
UNITED STATES OF AMERICA, INTERVENOR

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES ON REARGUMENT

OPINIONS BELOW

The opinion of the District Court of the United States for the District of Delaware (R. 33–43) is reported in 47 F. Supp. 582. The opinion of the United States Circuit Court of Appeals for the Third Circuit (R. 112–120) is reported in 144 F. 2d 714.

JURISDICTION

The orders of the Circuit Court of Appeals were entered on August 7, 1944 (R. 111–112, 121). Pursuant to leave of court granted on September 7, 1944 (R. 122), petitioner filed a petition for

rehearing out of time (R. 122). On October 2, 1944, the Circuit Court of Appeals denied the petition for rehearing "after due consideration." (R. 130), and on the same day amended its opinion (R. 129–130). The petition for a writ of certiorari was filed on January 2, 1945, and granted February 5, 1945. Jurisdiction of this Court rests upon Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTIONS PRESENTED

The basic question presented is whether the Royalty Adjustment Act of October 31, 1942 is valid[1] insofar as it was made applicable to petitioner and its licensee, the Timken-Detroit Axle Company, through Royalty Adjustment Order No. W–3 issued by the War Department. In the order restoring this case to the docket for reargument, this Court has requested that counsel give special consideration in their briefs and argument to the following questions:

1. Whether the Royalty Adjustment Act, 56 Stat. 1013, is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured,

[1] In addition, the Government presents the question whether the constitutional issue should now be decided, since there are nonconstitutional grounds which have not yet been considered by the court below, and which may be dispositive of the entire case. This question is discussed in Point I, *infra*.

sold, and delivered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order.

2. Whether Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, Timken-Detroit Axle Company.

STATUTES INVOLVED

The Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. V, 89–96), known as the Royalty Adjustment Act, is set forth in Appendix A, pp. 81–86. The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. 68), is set forth in Appendix B, p. 87.

INTEREST OF THE UNITED STATES

This brief is filed by the United States as intervenor pursuant to the Act of August 24, 1937 (50 Stat. 751, 28 U. S. C. 401), in order to support the validity of the Royalty Adjustment Act and of Royalty Adjustment Order No. W–3 issued thereunder by the War Department, it having been certified to the Attorney General by the Circuit Court of Appeals that the validity of that Act had been drawn in question in this suit. The United States takes no position as to the merits of the claims asserted by petitioner and respondent against each other, except insofar as the validity

of the Royalty Adjustment Act and Order have a bearing thereon.

STATEMENT

Early in 1938, petitioner (Alma Motor Company), respondent (The Timken-Detroit Axle Company), and one Herrington were parties to an interference in the United States Patent Office, each party owning a patent application for essentially the same device—a mechanism known as a "transfer case" (an auxiliary transmission for automotive vehicles) (R. 33). Following some "preliminary sparring" in the Patent Office, representatives of the three parties held a conference at a Detroit hotel in May 1938 and agreed that petitioner should have the patent and license the other two parties when the patent issued (R. 34). There were "indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating" (R. 34). After the conference, respondent and Herrington formally conceded priority to petitioner, petitioner disclaimed certain counts of the interference which the parties had agreed were anticipated by prior art, and petitioner executed a license agreement with respondent (R. 34).[2] Under this agreement, executed on May 16, 1938, respondent agreed to pay

[2] Herrington withdrew after the Marmon-Herrington Company decided that it did not wish to manufacture the transfer cases.

to petitioner $1,500 immediately and royalties ranging from 50 cents to $1.50 per transfer case, depending upon the weight of the vehicles into which the transfer cases were installed (R. 89–90). A "full return" to petitioner was to be made by respondent upon the "first days of January and July in each year" (R. 89). On September 12, 1939, the patent (No. 2,173,044) actually issued and the license then became effective (R. 4).

DISTRICT COURT PROCEEDINGS

On January 23, 1941, respondent brought this action against petitioner under the Federal Declaratory Judgment Act[1] in the District Court of the United States for the District of Delaware, to declare the patent invalid and the license agreement inapplicable to certain transfer cases manufactured by respondent (R. 2–9, 16–17). Petitioner filed an answer and a counterclaim for royalties alleged to be due under the license agreement (R. 9–13, 17–18). On September 23, 1942, the District Court rendered its opinion (R. 33–43), and on December 2, 1942, entered a judgment (R. 49–51), holding that respondent as a licensee was estopped to question the patent's validity (Par. 3, R. 49); that certain of the transfer cases in question were dominated by the patent and thus subject to royalties under the license (Par. 4, R. 49–50); and that the remainder of

[1] Judicial Code, § 274d (28 U. S. C. 400).

the transfer cases were outside the patent and hence not subject to royalties (Par. 5, R. 50).

On February 27, 1943, petitioner appealed to the court below from Paragraph 5 of the judgment (R. 51), which had held certain transfer cases to be outside the patent. Respondent did not appeal.

ROYALTY ADJUSTMENT PROCEEDINGS

On December 30, 1942, pursuant to Section 1 of the Royalty Adjustment Act of October 31, 1942,[4] the War Department served written notice upon petitioner and respondent that the royalties called for by their license agreement and "now being paid by the United States" are "believed to be unreasonable or excessive;" that an order fixing the rate or amount of royalty deemed fair and just would be issued within a reasonable time; that the licensor and the licensee could, upon request, "present in writing or in person any facts or circumstances which may * * * have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act;" and that until an order is issued "no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States" (R. 106–107). The notice also stated that "the

[4] The Royalty Adjustment Act was summarized by this Court in *Coffman* v. *Breeze Corporations, Inc.*, 323 U. S. 316, 319–320.

United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement" (R. 107). On February 8, 1943, upon petitioner's request (R. 107–108), petitioner and respondent appeared before a War Department Examining Board to present "facts and circumstances" bearing upon the royalty to be fixed under the Act (R. 61–86).

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W–3 (R. 93–96). The Order recited that royalties payable by respondent to petitioner under the license agreement were "directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the United States" of the alleged invention covered by the patent; that such royalties were "believed to be unreasonable or excessive taking into account the conditions of wartime production" (R. 93–94); and that the "fair and just" royalty in the circumstances was zero (R. 94, 96). The zero royalty was based upon the belief of the War Department officials that the patent was invalid (R. 73). The Order directed respondent to pay no royalties whatever to petitioner under any license agreement "in respect of any supplies, equipment or materials delivered to or for the War Department," as to which roy-

alties had not been paid prior to the notice (R. 94–95); to pay to the United States any such royalties which had accrued or were to accrue on deliveries to or for the War Department and which had not been paid to petitioner prior to the notice (R. 95); and to reduce the contract price of articles to the War Department or its contractors or subcontractors "to the extent necessary to give the War Department the full benefit of the [ordered] reduction in royalty rates" (R. 95).

PROCEEDINGS IN THE COURT BELOW

After Royalty Adjustment Order No. W–3 was issued, respondent on August 25, 1943, filed a motion in the court below to dismiss the appeal and remand the cause to the district court (R. 53–55). Asserting that respondent "has manufactured and sold transfer cases coming within the [license] agreement * * * only to or for the use of the War Department," the motion alleged that the court's jurisdiction had been withdrawn by the provision in the Royalty Adjustment Act depriving the licensor of any remedy against the licensee for any royalties in excess of those permitted by the Order and making the licensor's "exclusive remedy" for such royalties a suit against the United States for "fair and just compensation" (Secs. 1, 2). By leave of court (R. 96–98), the United States filed a memorandum brief as *amicus curiae*, on November 15, 1943,

contending that if all the transfer cases in suit had "been manufactured and sold directly or indirectly to the United States," as the affidavit supporting respondent's motion averred (R. 60), so that the royalties due thereon were "directly or indirectly charged or chargeable to the United States," then an "actual controversy" between the litigants no longer existed.

On December 6, 1943, petitioner filed in the court below a "Petition to Review and Vacate Royalty Adjustment Order No. W-3" on the ground that the Order and the underlying Act were unconstitutional (R. 98–103). Upon certification by the court below that the constitutionality of the Act had been questioned, the United States intervened under the Act of August 24, 1937 (50 Stat. 751, 28 U. S. C. 401) for the purpose of supporting the constitutionality of the Act and Order (R. 110–111, 113).

After this issue was briefed and argued, the court below rendered its opinion on August 7, 1944 (R. 112–120), holding the Act and Order valid as a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120), and concluding that the Order's direction to pay no royalties whatever to petitioner made the instant suit moot (R. 113). The court accordingly directed the following disposition of the case (R. 120):

> Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again[5] exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

The court also dismissed the "Petition to Review and Vacate Royalty Adjustment Order No. W–3" (R. 111–112) for want of jurisdiction (R. 119). On October 2, 1944, a petition for rehearing was denied (R. 130).

SUMMARY OF ARGUMENT

1. The validity of the Royalty Adjustment Act should not be determined at this stage of the proceedings, for there are nonconstitutional issues, undecided by the court below, that may be completely dispositive of the case. The court below should decide whether the transfer cases made by respondent are covered by the license, since an affirmance of the district court's holding of noncoverage would end the entire controversy. In any event, since Timken is now free to make

[5] The word "again" was deleted by an order of October 2, 1944, amending the court's opinion (R. 129–130).

transfer cases for private use, there should be a declaration of the royalty rights on any such production. A final adjudication is unavailable so long as the district court's earlier and unreviewed ruling of noncoverage remains unreviewed.

2. The Act is a valid exercise of the war power, invoked here to cope with one of the staggering problems of World War II—the skyrocketing of patent royalties because of the unprecedented increase in war production. The Government concedes, for the purpose of this case, that the royalties stipulated in the license agreement here involved are reasonable, if the patent is valid. And, since the Act permits inquiry into the validity of the patent, the issue presented is whether Congress may thus outlaw the technical rule of estoppel, normally barring a licensee from challenging the validity of the licensor's patent. The power of Congress to do so, we submit, is clear, for the Act merely reaffirms an earlier public policy expressed in the Act of June 25, 1910, as amended (*infra*, p. 87), against saddling the Government with royalty charges for the use of worthless patents. Even without the Act, the ordinary estoppel rule would yield to the overriding policy of the 1910 Act. *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173; *Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U. S. 249.

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Congress, as a matter of wartime necessity, has merely adopted familiar principles of equity, and prescribed a more comprehensive rule. Application of this new rule to royalty claims already outstanding in no way infringes due process. A licensor has no vested right in the technical defense of estoppel, any more than a party may have in the defense afforded by a statute of limitations. Cf. *Chase Securities Corp.* v. *Donaldson,* 325 U. S. 304.

3. In its broader aspects, the Act is valid as a wartime regulatory measure akin to price fixing. Should "just compensation" in the Court of Claims yield less than the stipulated royalties, that is merely the result of fixing a maximum "price" for the use of the invention, and the consequent reduction in the value of the patent, produces no constitutional infirmity. *Yakus* v. *United States,* 321 U. S. 414; *Bowles* v. *Willingham,* 321 U. S. 503. Nor is due process offended when the Act reaches royalties accruing before its enactment. Accrued royalty rights like accrued contract rights are not immune from legislative interference, when the necessity for such interference plainly appears. *East New York Savings Bank* v. *Hahn,* 326 U. S. 230, 232; *Norman* v. *Baltimore & Ohio R. Co.,* 294 U. S. 240; *Philadelphia, B. & W. R. R. Co.* v. *Schubert,* 224 U. S. 603; *Louisville & Nashville R. R.* v. *Mottley,* 219

U. S. 467; *New York* v. *United States*, 257 U. S. 591; *Wright* v. *Union Central Insurance Co.*, 304 U. S. 502. Moreover, the Act is no more than a further regulation of a subject matter regulated long before the patent here involved came into existence. In any event, the Congressional determination to reach accrued royalties is fully justified by the exigencies of war. It could not reasonably be expected that Congress immediately enact all the legislation necessary to cope with the problems stemming from a wartime crisis.

4. The Act is also valid as an exercise of the eminent domain power in aid of the war power. The Act condemns a license under patented inventions, which is independent of the consensual license already held by the contractor, in return for a right to just compensation from the Government. The two constitutional limitations upon the eminent domain power are satisfied—just compensation is provided and the property is taken for a public use. To the extent that the Act prevents full performance of the pre-existing license agreement, due process is not invaded, since frustration of a pre-existing contract by condemnation of its subject matter does not constitute a "taking" of the frustrated contract or the "money" due thereunder. *Omnia Co.* v. *United States*, 261 U. S. 502. The eminent domain power equally supports application of

the statute to royalties accruing before its enactment. The sovereign may take by condemnation whatever type of license could be the subject matter of a voluntary agreement, and in this instance has taken a license covering both past and future uses. If the Act requires a retroactive exercise of the eminent domain power, that is no reason for striking it down. Unusual conditions occasioned by total war often necessitate unusual remedies, and even in peacetime this court has countenanced retroactive exercise of the eminent domain power. *Shoshone Tribe* v. *United States,* 299 U. S. 476.

5. The amount recoverable by petitioner as just compensation is dependent upon the evidence as to the validity of the patent, adduced before the Court of Claims. Since the Government concedes for the purposes of this case that the stipulated royalties are reasonable if the patent is valid, the only issue to be adjudicated in the Court of Claims suit (assuming that petitioner prevails on the coverage issue) is the validity of the patent. If the patent is found valid, petitioner may be entitled to the full amount of the stipulated royalties; if the patent is found invalid, petitioner will be entitled to recover nothing.

6. If any constitutional issue is posed by the instant proceeding, it is narrow in scope. As applied here, the only effect of the Act is to substi-

tute the Court of Claims for the district court as the tribunal for adjudicating petitioner's claim to royalties, and to substitute the United States for the licensee as the formal adversary in the suit. In so doing, the Act is clearly valid, for petitioner is provided with an adequate remedy for enforcement of its rights. The Court of Claims is free under the Act to pass upon all questions of law involved, including constitutional issues, and, as noted above, conceivably may award petitioner an amount equal to the stipulated royalties. Thus, the Act preserves every constitutional right to which petitioner is entitled. Cf. *Anniston Manufacturing Co.* v. *Davis*, 301 U. S. 337.

ARGUMENT

In the court below, the Government agreed with respondent Timken's contention that the validity of the Royalty Adjustment Act was brought into question. The same position was taken in this Court at the prior argument. However, upon reexamination of the case, particularly in the light of the cessation of hostilities, the Government feels compelled to urge that the constitutionality of the Act should not be determined at this stage of the proceedings, since there are nonconstitutional issues, not adjudicated by the court below, that may be completely dispositive of the case. We shall urge in Point I that the case be remanded for a consid-

eration of such grounds. Alternatively, we shall undertake, in Point II, to support the validity of the Act.[6]

I

THE CONSTITUTIONALITY OF THE ROYALTY ADJUSTMENT ACT SHOULD NOT BE DETERMINED AT THE PRESENT STAGE OF THIS PROCEEDING

Basically, three series of transfer cases made by Timken, namely, T–32, T–43, and T–79, were involved in the original proceeding in the district court. Until 1942, Timken paid Alma royalties on the T–43 series only, apparently on the ground that the patent, if valid, applied to such cases alone (R. 13, 60, 65). The district court held that the patent and the coextensive license covered both the T–32 and the T–43 series, but that it did not cover the T–79 series (R. 49–51). Petitioner appealed to the court below solely for review of the correctness of

[6] In thus organizing the Argument, the Government nevertheless intends to meet fully the two questions raised by the Court in its order for reargument. Question 1, regarding the power of Congress to reach royalties which had accrued prior to the enactment of the Act, or prior to the issuance of the Royalty Adjustment Order, is treated in Point II B (pp. 31–37) insofar as the Act abolishes the estoppel rule, in Point II C 1 (pp. 41–58) to the extent that the Act is viewed as a wartime regulatory measure akin to price fixing, and in Points II D (pp. 58–72), insofar as the Act is considered as an exercise of the eminent domain power in aid of the war power. Question 2, regarding the extent to which the Act saves to petitioner any right it may have to recover the full royalties stipulated in the license agreement is answered in Point II E (pp. 72–75); and Point II G (pp. 77–80); see also pp. 56–57, 62–66.

the district court's holding of noncoverage in respect of the T–79 transfer cases (R. 51). Respondent Timken did not take a cross-appeal from the adverse ruling as to the T–32 and T–43 transfer cases. Accordingly, the only subject matter involved in the appeal was the decision of the district court as to the T–79 transfer cases. These constituted the great preponderance of Timken's production.[6a]

The Royalty Adjustment Act was enacted before the appeal was taken and the Royalty Adjustment Order issued before the hearing of the appeal. Despite these intervening events, the court could have addressed itself to the coverage question on the T–79 transfer cases, and if it had affirmed the district court's holding that these transfer cases were not covered by the license agreement, the case would have been at an end and there would have been no occasion to inquire into the constitutionality of the Act. The court, however, selecting an alternative ground for its decision, considered the constitutionality of the Act, and, upon determining

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[6a] We are informed by the War Department that Timken has advised it that between September 12, 1939 and June 30, 1945, Timken shipped 45,696 T–32 cases on which, at a royalty rate of 50¢ per case, $22,848.00 would be due; 8,146 T–43 cases on which, at a royalty rate of 50¢ per case, $4,073.00 would be due, of which $3,713.50 was paid to Alma; and 494,795 T–79 cases on which, at a royalty rate of 75¢ per case, $371,096.25 would be due if covered by the license. Timken claimed in the court below that it had charged royalties only on certain T–43 cases (R. 60).

the Act to be valid, held that the cause had been rendered moot (R. 129–130).

In view of this background, we believe it would be inappropriate for this Court to pass upon the constitutionality of the Royalty Adjustment Act at this stage of the proceeding, for "if there is one doctrine more deeply rooted than any other in the process of constitutional adjudication, it is that [this Court] ought not to pass on questions of constitutionality * * * unless such adjudication is unavoidable." *Spector Motor Co.* v. *McLaughlin*, 323 U. S. 101, 105. And, while it may normally be a matter of judicial discretion as to which of alternative grounds shall be selected as the basis of decision, such is not the case where the only choice is between a constitutional and nonconstitutional ground. It is a familiar canon that a court should "not pass upon a constitutional question although properly presented by the record, if there is also present some other ground upon which the case may be disposed of. * * * Thus, if a case can be decided on either of two grounds, one involving a constitutional question, the other a question of statutory construction or general law, the Court will decide only the latter." Brandeis, J., concurring in *Ashwander* v. *Tennessee Valley Authority*, 297 U. S. 288, 347.

(2) Moreover, there is a further reason why the nonconstitutional issue should be decided first. Apart from the general principle that where there are alternative grounds the nonconstitutional

ground should be chosen, the nonconstitutional ground will have to be decided in any event in this case; and since it may be sufficient to dispose of the case completely, it should be decided first. According to petitioner, its invention "is not of the type that is limited in its application to the production of ordnance or other wartime material. It is an invention that is capable of widespread use for the production of four-wheel drive trucks having extensive private or commercial uses" (Supplemental Brief, pp. 44–45). Thus, with the cessation of hostilities, respondent Timken is free to manufacture these transfer cases for private use. And whatever may be the fate of petitioner's claim to royalties on transfer cases made for ultimate Government use, there remains its claim to royalties on transfer cases that may be manufactured for private use, under the license agreement still having approximately ten years to run (R. 88–90). With respect to the latter claim, the Act and Order are obviously not applicable, and a justiciable controversy remains for decision. Therefore, consideration of the validity of the Act cannot dispose of the present proceeding in its entirety. In contrast, if the court below were now required to pass upon the coverage question, the entire case, both with respect to transfer cases manufactured for Government use, and for private use, might be completely disposed of. For, if the transfer cases in question are not covered by the license

agreement, petitioner can have no right to royalties on any transfer cases, whether made for Government or private use.

Thus, by requiring the court below to pass upon the coverage issue, the validity of the Act might not have to be decided, there might be no necessity for a suit by petitioner in the Court of Claims, and there could be an adjudication of its claim to royalties on transfer cases that respondent Timken may manufacture for private use. We submit, therefore, that sound principles of judicial administration, and familiar canons of constitutional adjudication require that this Court abstain at this stage of the proceedings, from ruling upon the validity of the Royalty Adjustment Act, and that the case be remanded for further consideration of the nonconsttiutional issues which may be completely dispositive of this case.

II

THE ROYALTY ADJUSTMENT ACT IS A VALID EXERCISE OF THE WAR POWER

The Royalty Adjustment Act, here under attack, represents a typical exercise of the war power, and involves the attempt of the Government to promote the successful prosecution of the war by protecting itself from paying excessive royalties or paying royalties under invalid patents for war supplies. Petitioner is the owner of a patent whose validity is seriously challenged. The patent was obtained only after petitioner,

through a private conference with respondent and other competing applicants for the same patent reached an agreement which provided for the unopposed issuance of the patent to it and included a license to respondent. When the agreement was made, there were "indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating" (R. 34). Petitioner now claims that as a result of its license agreement with respondent, the Government must, during wartime, pay royalties for the use of the patented invention, however invalid the patent may be. It is in this setting that the validity of the Royalty Adjustment Act is to be considered in this case.

The Royalty Adjustment Act provides (Sec. 1) that whenever a patented device is "manufactured, used, [or] sold * * * for the United States" under a license stipulating for payment of royalties "believed to be unreasonable or excessive" by the head of the government agency concerned, he "shall give written notice of such fact to the licensor and to the licensee." It provides that within a reasonable time thereafter the head of the agency "shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production." The Act directs the licensee, after the effective date of the notice, not to "pay to the licensor, nor charge

directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacturer, use, sale, or other disposition." The Act deprives the licensor of "any remedy * * * against the licensee for the payment of any additional royalty remaining unpaid." It provides that his "sole and exclusive remedy, except as to the recovery of royalties fixed in said order" is a suit against the United States (Sec. 2) "to recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production." By Section 7 the Act is made applicable "to all royalties directly or indirectly charged or chargeable to the United States" which "have not been paid to the licensor prior to the effective date of the notice," as well as to royalties accruing upon all articles delivered after the effective date. By Section 4 any reduction in royalties authorized by the Act is to "inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid * * * or by way of refund if already paid to the licensee."

As emergency legislation of a temporary nature, enacted to meet one of the needs of a great wartime crisis, the Royalty Adjustment Act finds full support in the Federal war powers. This

is the very same power which permits the Government to control the price of every commodity bought and sold within the national boundaries (*Yakus* v. *United States*, 321 U. S. 414); to fix the amount of rent to be charged for every room, home or building, and this even though to an individual landlord there may be less than a fair return (*Bowles* v. *Willingham*, 321 U. S. 503); to operate railroads (*Northern Pacific Railway Company* v. *North Dakota*, 250 U. S. 135); to prohibit the sale of liquor (*Hamilton* v. *Kentucky Distilleries Company*, 251 U. S. 146); to restrict freedom of speech in a manner that would be unwarranted in time of peace (*Schenck* v. *United States*, 249 U. S. 47); to ration and allocate the distribution of every commodity important to the war effort (*Steuart & Bro.* v. *Bowles*, 322 U. S. 398); to restrict the personal freedom of American citizens by curfew orders and the designation of areas of exclusion (*Hirabayashi* v. *United States*, 320 U. S. 81); and, finally, to demand of every citizen that he serve in the armed forces of the nation (*Falbo* v. *United States*, 320 U. S. 549; *Selective Draft Law Cases*, 245 U. S. 366).

The relationship of the Act to the war powers of Congress is clear. The announced objective of the Act is "to aid in the successful prosecution of the War" (Sec. 1); the "fair and just" royalty preliminarily fixed by the head of the department concerned is to take "into account the

conditions of wartime production" (Sec. 1); and the Act is applicable only "during the continuance of the present war and for six months after the termination thereof" (Sec. 7).

A. THE ACT IS A NECESSARY WARTIME MEASURE

The Royalty Adjustment Act is but one of several wartime statutes designed to cope with the staggering problems confronting the nation during World War II. Only in this setting and in the light of related wartime statutes can the purpose of and necessity for the Act properly be brought into focus.[7]

With the outbreak of World War II, the armed services were faced with procurement problems of unprecedented magnitude. The clear warnings from the course of events, that the United States should look at once to the strengthening of its defenses against aggression, led to the declaration by President Roosevelt of a state of limited emergency on September 8, 1939, and to a greatly accelerated program of procurement and production of munitions and supplies. The attack at Pearl Harbor and the ensuing declaration of war against Germany, Italy, and Japan further multiplied our military and naval needs.

The tremendous increase in the procurement

[7] See Joint Report by the War and Navy Departments concerning the Relation of Patent Licenses and Royalties to War Procurement. Copies of this report will be made available to the court.

requirements of the Government, with which to meet the challenge of aggression and to assure our survival as a nation, may be illustrated by the fact that the total expenditures of the War and Navy Departments for the single fiscal year ending June 30, 1942 ($22,905,000,000) considerably exceeded the total military and naval expenditures of the Government from 1789 through the end of World War I.[8]

One of the items in governmental procurement costs, constituting a significant portion of the total, was royalty payments under patent license agreements between patent owners and the manufacturers and suppliers. Because of the unprecedented increase in production occasioned by World War II, patent royalties leaped to spectacular heights. The increase in royalties was peculiarly noteworthy, first because, unlike the sale of a commodity or service, increased use of the patented invention usually involved no increase whatever in the costs or investment of the patent owner, and second because most of the royalty rates had been fixed with an eye to peacetime production quantities. Hence, the skyrocketing of royalties became one of the outstanding instances of undue profits in wartime. Patent owners who had stipulated for a royalty at a rate which would give them a satisfactory return under normal production schedules, found them-

[8] See Joint Report, p. 2, footnote 7, *supra*.

selves receiving amounts which were hundreds and sometimes more than a thousand times greater. The files of the War and Navy Departments reveal numerous examples of royalties fixed under peacetime production schedules, which became grossly excessive when applied to wartime procurement. Of these a few may be summarized as follows:

Cases illustrative of wartime expansion of royalties

Patented article or process involved	Prewar royalties		Wartime royalties [1]		Percentage of increase
	Amount	Year	Amount	Year	
Rotary wing aircraft and parts	$20,000	1938	$12,000,000	1943	59,900
Turn and bank indicators	10,150	1938	2,201,175	1942	21,586
Radio tube sockets and electrical connectors	16,000	1938	2,000,000	1943	12,400
Reduction gears, dynamic dampers, two-speed superchargers and torque	33,800	1938	4,200,000	1944	12,326
Propellers	18,216	1938	2,126,442	1943	11,573
Stop nut	15,521	1938	1,213,421	1943	7,718
De-icing equipment for aircraft	14,067	1938	972,200	1943	6,811
Aviation training apparatus	50,626	1038	2,400,000	1943	4,641

[1] Royalties due if pre-war royalty rate were applied to war production.

The problem was rendered particularly acute because the Government, under the Act of June 25, 1910, as amended (36 Stat. 851; 35 U. S. C. 68, Appendix B, *infra,* p. 87), had the right to use, or to direct its contractors to use, any patented invention without license, the patent owner's sole remedy being the recovery of reasonable compensation from the United States in the Court of Claims. *Crozier* v. *Krupp,* 224 U. S. 290; *Richmond Screw Anchor Co.* v.

United States, 275 U. S. 331.[9] However, the 1910 Act as amended was held to be inapplicable where the Government contractor held a license from the patent owner (*Newport News Shipbuilding and Dry Dock Co.* v. *Isherwood*, 5 F. 2d 924 (C. C. A. 4), certiorari denied, 269 U. S. 592). Accordingly, where the patent owner had licensed the Government contractor to use the invention, it was believed that the Government could not, without further legislation, avoid the payment, either directly or indirectly, of royalties fixed in the license, no matter how excessive and unreasonable. In cases where two manufacturing facilities were available and necessary for the production of a given article, one licensed and the other unlicensed under the applicable patents, the United States could order the unlicensed manufacturer to proceed, incurring only the obligation to pay reasonable compensation for the use of the relevant patents; whereas a like order to the licensed manufacturer would subject the United States to royalty rates which had been fixed during peace-

[9] The power of the Government to use any unlicensed inventions at a reasonable cost to itself was extended in effect to other types of property necessary to our total mobilization during wartime. See *e. g.*: Sec. 201 of the First War Powers Act (55 Stat. 839, 50 U. S. C. App., Supp. V, 611); Title III of the Second War Powers Act (56 Stat. 177, 50 U. S. C. App., Supp. V, 633); Sec. 1 of the Requisitioning Act of October 16, 1941 (55 Stat. 742, as amended, 50 U. S. C. App., Supp. V, 721); Sec. 9 of Selective Training and Service Act of 1940 (54 Stat. 892, 50 U. S. C. App., Supp. V, 309).

time without the participation of the United States, and which were obviously exorbitant when applied to the staggering volumes of wartime production. This situation was aggravated in those cases where the patent was invalid, or not effective against the United States. Here the estoppel normally operative between licensor and licensee would, if applied to the Government's war production, require the public treasury to pay out very substantial amounts of taxpayers' money for a wholly worthless right, given an artificial value through a private business arrangement made during peacetime.

The anomaly of such situations was not lost on many patent owners themselves. In some cases between December 7, 1941, and October 31, 1942, patent owners cooperated with the War and Navy Departments by voluntarily agreeing to reduce royalty rates. Often, however, patent owners insisted upon receiving the fixed royalties no matter how excessive, and in many instances their licensees were the only sources adequately provided with the equipment and knowledge essential to the expeditious and efficient use of the inventions. As a consequence, the Government was confronted with the dilemma of paying the exorbitant royalties or foregoing production of critical war items at the licensed plants. The Armed Services, which were responsible for the great bulk of war procurement, believed that

the best interests of the nation during the war required that all Government contractors be placed in the same position with respect to the manufacturing cost of a particular item of procurement, regardless of whether they were licensed or unlicensed Recognizing these factors, an appropriate bill was introduced in Congress, at the request of the War and Navy Departments, which became the Royalty Adjustment Act on October 31, 1942.[10]

The basic objective of the Royalty Adjustment Act—to assure the Government of reasonableness and uniformity in procurement costs—found expression in other aspects of our wartime controls. Thus, the Renegotiation Act of April 28, 1942, as amended (56 Stat. 245, 50 U. S. C. App., Supp. V, 1191), provided a means for reducing and eliminating excessive profits under war contracts, and the Emergency Price Control Act of January 30, 1942, as amended (56 Stat. 23, 765, 50 U. S. C. App., Supp. V, 901, 961 *et seq.*), imposed restrictions in the field of private enterprise upon the prices of materials and supplies large parts of which eventually entered the stream of war procurement. Steps were also taken to assure that unreasonable royalties already paid to a patent

[10] Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d sess.); H. Rep. No. 2602 on S. 2794 (77th Cong., 2d sess.); S. Rep. No. 1640 on S. 2794 (77th Cong., 2d sess.).

licensor before the issuance of a notice under the Act (and therefore exempt from the Act), should be subject to recapture by the Government. When the Renegotiation Act was amended on October 21, 1942, so as to define subcontract to include any agreement to "furnish any article, required for the performance of another contract or subcontract," and to define the term "article" to include any "personal property" (Revenue Act of 1942, Tit. VIII, Sec. 801 (a), 56 Stat. 798, 982), the Judge Advocate General of the Army held that the Act applied to patent royalty agreements. See *Joint Renegotiation Manual*, Chap. III, Sec. 3, Par. 334.3. Thereafter, the Price Adjustment Boards of both the War and Navy Departments considered patent license agreements to be renegotiable as subcontracts within the meaning of the Renegotiation Act. The Renegotiation Act was regarded as applicable to royalties already paid over to the licensor during a past renegotiation year and the Royalty Adjustment Act was regarded as applicable to royalties that had accrued but had not been paid over at the time the question of reasonableness arose. This policy was formalized in the Renegotiation Regulations, Chap. III, Sec. 334.3.

Operations under the Royalty Adjustment Act have confirmed the Congressional determination as to the need for the measure. It is estimated that, as of June 30, 1945, more than one-half

billion dollars was saved the Government through operations under the Act. These savings were, in the largest measure, represented by settlements under Section 3 of the Act.[11] A detailed analysis of the operations under the Act is contained in a Joint Report by the War and Navy Departments concerning the Relation of Patent Licenses and Royalties to War Procurement, copies of which will be made available to the Court.

B. THE ACT, AS APPLIED HERE, MERELY ABOLISHES PRO TANTO THE RULE ESTOPPING A LICENSEE FROM CHALLENGING THE VALIDITY OF THE LICENSOR'S PATENT

For the purpose of this case, the Government does not question the reasonableness of the royalties stipulated in the license agreement here involved. The heart of the controversy is the validity of the patent. The Government concedes that if the patent is valid, the royalties specified in the license agreement are reasonable. In this posture of the case, the issue presented is whether Congress may outlaw the technical rule of estoppel in those cases where its application would permit royalties under worthless patents to be charged to

[11] Between October 31, 1942, when the Act became law, and June 30, 1945, 541 settlements were made without the commencement of formal proceedings. During the same period the Government issued 117 notices, which resulted in 42 orders, 20 settlements, 5 cases closed without adjustment, and 50 outstanding notices. Six of the above-mentioned orders were in turn converted into settlement agreements.

the Government upon war production.[12] The power of Congress to do so, we submit, is clear.

(1) To the extent that the Royalty Adjustment Act circumscribes the estoppel rule, it merely reaffirms an earlier stated public policy against saddling the Government with royalty charges for the use of worthless patents. Long before the issuance of petitioner's patent and the existence of the license agreement here involved, Congress, by the Act of June 25, 1910, as amended (36 Stat. 851, as amended, 35 U. S. C. 68; Appendix B, *infra*, p. 87), made clear that the unlicensed use of a patented invention by or for the Government would result in no more reward to the patent owner than "reasonable and entire compensation" through suit in the Court of Claims; and the Act completely saved to the Government the defense of invalidity of the patent. The Act thus embodied the principle that the owner of an

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[12] Section 2 of the Act makes available to the United States when sued for just compensation, "all defenses, general or special, that might be pleaded by a defendant in an action for infringement" (Appendix A, *infra*, p. 81). This provision is taken from the 1910 Act, as amended (Appendix B, *infra*, p. 87). At the hearings, it was pointed out that the 1910 Act as amended recognizes the right of the Government to show that the patent upon which suit is brought is worthless for one reason or another (Hearings, p. 48, fn. 10, *supra*, p. 29). The sponsors of the Act plainly regarded validity as a proper subject of inquiry in determining the amount of royalty to be fixed in a Royalty Adjustment Order (Hearings, p. 71, fn. 10, *supra*, p. 29).

invalid patent could expect no profit from its use by or for the Government.

It is true that in *Newport News Shipbuilding & Dry Dock Co.* v. *Isherwood*, 5 F. 2d 924 (C. C. A. 4), certiorari denied, 269 U. S. 592, it was held that the 1910 Act, as amended, did not extend to licensed use of patented inventions for the Government. But in that case no question was raised as to the validity of the licensed patent and, whatever purpose Congress may have had in exempting licensed use of patents from the 1910 Act, as amended, it by no means follows that Congress intended to exempt licensed uses of an invalid patent. Neither the *Newport News* case nor any decision of this Court has ever suggested such result. In this context, we submit, there has existed since the enactment of the 1910 Act, as amended, a statutory disapproval of the payment of royalties under an invalid patent. Thus, the ordinary rule of estoppel between licensor and licensee would, even without the Royalty Adjustment Act, yield to the overriding policy of the 1910 Act, as amended.

Precedents for this limitation upon the estoppel doctrine are at hand. In *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, a patent licensee, who was sued for royalties, asserted that a price-fixing clause in the license agreement violated the antitrust laws because the patent was invalid. This Court upheld that defense and

rejected the plea that the licensee was estopped to question the validity of the patent. Mr. Chief Justice Stone said (at pp. 176–177):

> The federal courts have been consistent in holding that local rules of estoppel will not be permitted to thwart the purpose of statutes of the United States. * * *
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> Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492–93.

The application of the rule of the *Sola* case here is clear. The public policy enunciated in the 1910 Act, as amended, is that Government production shall not bear the cost of royalties under worthless patents. If petitioner were to prevail here, an invalid patent could be hidden behind a plea of estoppel, so as to "fasten upon the public" as well as the Government the financial burden of tribute under an invalid patent.

The doctrine of the *Sola Electric* case was again applied in *Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U. S. 249. There, in an infringement suit by a patent assignee against the assignor, the assignor was not estopped to

assert that the patented device had been anticipated by an expired patent. This Court held that the estoppel doctrine was overridden by the broader public purposes of the patent laws dedicating the invention of a patent to the public upon its expiration, and observed that "The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power" (326 U. S. at 257). So here, whatever ordinary considerations of good faith between the licensor and licensee may exist, they may not be made the "means of sacrificing a public interest," expressed in the 1910 Act, as amended, of freeing the Government from royalty charges for the use of a worthless patent.

(2) For the reasons stated above, we believe that, even without the Act, the estoppel rule would yield to the outstanding public policy against saddling the public with royalty charges under worthless patents. Assuming, however, that the estoppel doctrine would apply if the Act had not been adopted, the question then arises as to whether Congress may abolish the estoppel rule in such circumstances. We submit that Congress, under its war powers, clearly has such power.

The Act, insofar as it restricts the estoppel rule, merely embodies familiar principles evolved

by the courts. Courts of equity have commonly declined to apply the estoppel rule where it would defeat a substantial public interest. This is graphically illustrated by the decisions of this Court in *Sola Electric Co.* v. *Jefferson Electric Co., supra,* and *Scott Paper Co.* v. *Marcalus Mfg. Co., supra.* Since equity courts have traditionally imposed restriction upon the estoppel doctrine in individual cases, "there is no constitutional reason why in lieu of the more restricted control by a court of equity," Congress "cannot institute a [more] * * * comprehensive rule." Cf. *Gelfert* v. *National City Bank,* 313 U. S. 221, 233.

In the *Marcalus* case, it was implicit that whatever vitality might otherwise remain in the estoppel rule, it was subject to the will of Congress, which has "discretion in considering what is good and what is bad in the rule and fashioning legislation appropriate to the diversified aspects of the problem." See dissenting opinion of Mr. Justice Frankfurter (326 U. S. at 261). There can be nothing "good" in a rule which requires the Government, in a period of total war, to bear the cost of royalty charges under worthless patents. Congress found no such "good;" and, by the Royalty Adjustment Act, determined to abolish the rule, *pro tanto,* for the war period. Every justification for legislative restriction upon the estoppel rule was present in the circumstances surrounding the enactment of the Royalty Adjustment Act.

If, as we contend, Congress has the power to eliminate the estoppel rule, there is nothing in the Fifth Amendment preventing application of the statute to royalty claims already outstanding. For neither petitioner nor any other licensor has a vested right in the technical defense of estoppel, any more than a party may have in the defense afforded by a statute of limitations (*Chase Securities Corp.* v. *Donaldson*, 325 U. S. 304). Such defenses, although having a real and substantial bearing upon any realization on a claim, are deemed to "go to matters of remedy, not to destruction of fundamental rights." *Chase Securities Corp.* v. *Donaldson, supra*, at p. 314.

C. IN ITS BROADER ASPECTS, THE ACT IS A WARTIME REGULATORY MEASURE AKIN TO RICE-FIXING

We have heretofore argued, *supra*, pp. 31–37, that the Act, as applied here, merely abolishes *pro tanto* the rule which estops a licensee from challenging the validity of the licensor's patent. This argument has been predicated upon the Government's concession that the royalties here involved are reasonable if petitioner's patent is valid. However, even if the instant case be viewed as one involving not merely the validity of the patent, but the reasonableness of the royalties, there can be little doubt of the validity of the Act as a wartime regulatory measure akin to price-fixing.

To the extent that recovery of "just compensation" may produce less than the royalty rate

stipulated in the license (see discussion, *infra*, pp. 72–75), the Act and Order herein will reduce petitioner's return under its license agreement. However, this effect is merely the result of fixing a maximum "price" for the use of the invention in government production. The consequent reduction in the value of the licensor's patent is a result of, but not an infirmity in, the price regulation.

In *Yakus* v. *United States*, 321 U. S. 414, and *Bowles* v. *Willingham*, 321 U. S. 503, this Court upheld certain provisions of the Emergency Price Control Act of 1942 (56 Stat. 23, 50 U. S. C. App., Supp. V, 901 *et seq.*), together with regulations thereunder, establishing maximum prices for meat and maximum rent for dwellings. In the *Willingham* case, this Court said (321 U. S. at 517–519):

> * * * price control, the same as other forms of regulation, may reduce the value of the property regulated. But, as we pointed out in the *Hope Natural Gas Co.* case (320 U. S. p. 601), that does not mean that the regulation is unconstitutional. * * *
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> * * * We need not determine what constitutional limits there are to price-fixing legislation. Congress was dealing here with conditions created by activities resulting from a great war effort. *Yakus* v. *United States, supra.* A nation which can demand the lives of its men and women in the waging of that war is under no constitutional necessity of providing a system of price control on the domestic front

which will assure each landlord a "fair return" on his property.

That reasoning is applicable here. Congress may validly regulate, at a generally reasonable level, the price of food and shelter in order to prevent profiteering and inflation resulting from a shortage of housing facilities or commodities—"conditions created by activities resulting from a great war effort." Congress may likewise regulate, at a reasonable level, the price (royalties) payable by its war contractors for the use of patented inventions and chargeable to the public treasury. No less than the price-fixing under the Emergency Price Control Act, the Royalty Adjustment Act would prevent profiteering and the inflationary effect of exorbitant procurement costs during wartime.[13]

[13] The Act, by providing for judicial review of the action taken by the Royalty Adjustment Board, clearly meets the requirements of due process. In this respect the Act is more favorable to the property owner than was the Price Control Act. Judicial review under the Price Control Act is limited to determining whether the regulation is "not in accordance with law, or is arbitrary or capricious" (Sec. 204 (b); 50 U. S. C. App., Supp. V, 924 (b)). This means that a price or rent regulation which complies with the statutory requirements, and is not arbitrary or capricious, is valid even though the individual property owner may obtain less than a "fair return on his property." *Bowles* v. *Willingham*, 321 U. S. 503, 516–519. Under the Royalty Adjustment Act, on the other hand, the patent owner is given the right to a judicial determination of whether the royalty rate prescribed in the order gives him "fair and just compensation"; and if the court should differ on this point with the executive agency which issued the order, the United States stands liable for the difference.

The objectives of these statutes are strikingly similar. One purpose of the Emergency Price Control Act was "to assure that defense appropriations are not dissipated by excessive prices" (Sec. 1 (a)), and the Act was effective in reducing the costs of the war to the Government by many billions of dollars. The Royalty Adjustment Act is likewise aimed at preventing excessive charges to the Government resulting from wartime conditions, and as of June 30, 1945, it had saved the Government approximately one-half billion dollars (see p. 30, *supra*). Under the doctrine of the *Yakus* and *Willingham* decisions, Congress could validly have authorized the administrative reduction of all royalties to a reasonable level, whether they were payable by a Government contractor or by any other licensee. The fact that the regulation of royalties under the Royalty Adjustment Act is limited solely to manufacture or use for the Government does not make the Act less valid. A patent owner cannot complain that Congress has not exercised its fullest powers. Moreover, there is a reasonable basis for thus limiting the regulation. A royalty rate geared to peacetime uses will generally become excessive where the invention is one whose use is greatly multiplied by the needs of war.[13a]

[13a] Contrary to petitioner's contention (Supplemental Brief, pp. 18–19), the Act contains adequate standards for guidance in its administration. It is well settled that the standards of a statute are sufficiently definite where the Act

1. The retrospective aspects of the Act comport with due process

By Section 7, the Act is made applicable to "all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials" which are either (1) "delivered to or for the Government from and after the effective date of the notice," or (2) "already delivered to or for the Government," if the royalties have not been "paid to the licensor prior to the effective date of the notice" (Appendix A, *infra*, pp. 84–85). Thus, the Act would permit adjustment of royalties not only as to uses of an invention occurring after its enactment or after a notice is issued thereunder, but also as to prior uses for Government production, if the royalties have not been paid to the licensor at the time the

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requires that the rates to be fixed are to be "just and reasonable." Cf., *Federal Power Commission* v. *Hope Natural Gas Co.*, 320 U. S. 591; see also *Bowles* v. *Willingham*, *supra*, at 516–519. The Royalty Adjustment Act readily meets this test by requiring that the royalty rate fixed in the order be "fair and just" for the particular patent owner, "taking into account the conditions of wartime production" (Sec. 1). And, since the Court of Claims may allow an additional recovery, if necessary, to make the total compensation to the patent owner "fair and just," that alone supplies an adequate standard for administrative regulation. In *Levy Leasing Co.* v. *Siegel*, 258 U. S. 242, this Court upheld as a valid exercise of the state's police power, a New York statute which limited the recovery of a landlord against his hold-over tenant to a "reasonable rental, to be determined by the courts." This Court ruled that such a standard was "sufficiently definite to satisfy the Constitution" (258 U. S. at 250).

notice was issued.[139] Included in the royalties covered by the Royalty Adjustment Order here involved were accrued royalties representing deliveries before the Act was passed, and deliveries between the Act's approval (October 31, 1942) and issuance of the notice thereunder (December 30, 1942).

In the Order restoring this case to the docket for reargument, this Court has requested that counsel give special consideration to: "Whether the Royalty Adjustment Act, 56 Stat. 1013, is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold, and deliv-

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[139] In its Supplemental Brief, pp. 23–28, petitioner, for the first time, contends that there is doubt as to whether the Act is intended to apply to royalties accruing prior to its enactment, and urges that the Act should only be construed as prospectively applicable, in order to avoid difficult constitutional questions. This position is plainly unsound. Section 7 expressly recognizes that royalties may become due for materials delivered after the notice, or for materials delivered before the notice, and states without qualification that "all" royalties for materials "already delivered," if unpaid "prior to the effective date of the notice," shall be subject to adjustment. There is not the slightest suggestion in the Act that the delivery of the materials must have occurred after the enactment of the Act.

If there were any doubt as to the coverage of the statute, it could quickly be dispelled by the legislative history. When originally introduced, the Act, by Section 7, was confined to royalties for materials "deliverable to the Government from and after the date of the approval hereof" (Hearings, pp. 6–7, fn. 10, *supra*, p. 29). The Senate Committee on Patents

ered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order." The answer to both these questions, we submit, is clearly in the affirmative. The Act cuts across accrued private contract rights to no greater extent than did numerous types of regulatory statutes, both Federal and state, whose validity this Court has sustained under various *peacetime* powers (see *infra*, pp. 45–50), and, as the court below observed, "If individual contract rights may be interfered with in pursuance of regulatory power exercised on behalf of the general public it is even clearer that such rights are subordinate to the public interest

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amended Section 7 to make it applicable to "all royalties * * * for * * * materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act" (S. Rep., p. 6, fn. 10, *supra*, p. 29). The Committee Report shows that this change was adopted upon the War Department's recommendation "to extend the application of the bill * * * to royalties unpaid at the time of enactment of the bill as well as to those which become payable thereafter" (S. Rep., p. 5; see Hearings, pp. 9, 17–18, 20; fn. 10, *supra*, p. 29). The House Committee on Patents then converted Section 7 into its present form, so as to reach only royalties remaining unpaid at the issuance of the notice, rather than at the enactment of the Act (H. Rep. 2602 on S. 2794 (77th Cong., 2d Sess.) pp. 2–3, fn. 10, *supra*, p. 29). The Committee made it perfectly clear that it did not intend to exempt "all royalties remaining unpaid at the date of the passage of the Act," pointing out that such royalties would "be carefully scrutinized by the various interested Government departments and agencies," and would be reached if they "had not been paid to the licensor prior to the effective date of such notice" (H. Rep., p. 3, fn. 10, *supra*, p. 29).

when compensation is given the individual for such interference" (R. 118).

a. The Act May Properly Apply to Royalties Accruing Prior to Its Passage

The sponsors of the Royalty Adjustment Act did not consider that the problem of unreasonable royalties would be fully solved by regulating royalties on future production alone. While our participation in the war was in its first year, the National Emergency was completing its third. Royalties had already mounted under war contracts, which, when paid by the contractor, would be charged to the Government. To treat all licensors as equally as possible, the War Department had recommended to Congress that the Act be made applicable to all accrued but unpaid royalties. This proposal ignored excessive royalties already paid and to that extent would not remove the inequity between licensors cooperating and those declining to cooperate with the Government in royalty reduction, but it was felt that the administrative inconvenience involved in reexamining executed transactions would outweigh the considerations in favor of complete and ideal equality.[14] However, the exclusion from the Act of royalties already paid before the issuance of a notice did not free them of regulation, for only a

[14] See Joint Report by the War and Navy Departments on the Relation of Patent Licenses and Royalties to War Procurement, p. 12.

week prior to the enactment of the Act, the Renegotiation Act had been so amended that the Judge Advocate General of the Army held patent royalty agreements to be renegotiable (see pp. 30–31, *supra*).

We believe there can be no question of the power of Congress to reduce the accrued royalties to a fair and just amount. We shall show that (i) in appropriate circumstances, such royalty rights, like other accrued contract rights, are not immune from legislative interference, (ii) the Act regulates a subject matter which was already subject to regulation, and (iii), in any event, the exigencies of war here justify the retroactive portion of the Act.

(i) Accrued royalty rights, like accrued contract rights, are not immune from legislative interference

The fact that a statute may operate retroactively or have a retroactive effect does not of itself make the statute invalid. *Blount* v. *Windley*, 95 U. S. 173. From early days, this Court consistently has sustained the validity of legislation having a retroactive effect on existing property rights. *Curtis* v. *Whitney*, 13 Wall. 68. Contract rights, already accrued through partial or total execution of the contract involved, are no less immune from legislative interference even though such accrued rights will be partially or totally impaired. "The sovereign right of the Government is not less because the property af-

fected happens to be a contract." *Calhoun* v. *Massie*, 253 U. S. 170, 176. Such agreements "must necessarily be regarded as having been made subject to the possibility that, at some future time, the Congress 'might so assert its whole constitutional power as to render the agreement unenforceable or to impair its value.'" *Norman* v. *Baltimore & Ohio R. Co.*, 294 U. S. 240, 309. While this Court has been vigilant in safeguarding private contract rights from arbitrary legislative interference, nevertheless where the Congress in the exercise of an admittedly granted power has adopted a means reasonably adapted to achieve a legitimate end, such legislation has withstood challenge under the due process clause even though the effect is to set aside or reduce the value of accrued contract rights. *Philadelphia, B. & W. R. R. Co.* v. *Schubert*, 224 U. S. 603; *Louisville & Nashville R. R.* v. *Mottley*, 219 U. S. 467; *New York* v. *United States*, 257 U. S. 591; *Wright* v. *Union Central Insurance Co.*, 304 U. S. 502.

In all of the above cases, rights under a pre-existing contract had accrued to one party upon partial or full performance of his part of the contract. Thus, in the *Norman* case the bondholder had already paid for his bonds; in the *Calhoun* case the attorney had performed substantially all of the services required by his contract; in the *Schubert* case the railroad had already made substantial contributions to the "Relief Fund;" in the *Mottley* case the pass

holder had given a full release of his damage claims against the railroad; in *New York* v. *United States,* the state had already granted the charter to the railroad; and in the *Wright* case the mortgagee had long since advanced his money to the mortgagor. Yet in all of these cases, the subject matter of the rights being within the power of Congress, this Court upheld the validity of the legislation, notwithstanding the cancellation or reduction in value of the accrued contract rights.

This Court has likewise sustained the validity of state legislation substantially reducing or eliminating the value of accrued contract rights. *East New York Savings Bank* v. *Hahn,* 326 U. S. 230 (statute suspending mortgagor's right of foreclosure, applied to mortgage executed prior to the Act); *Faitoute Iron & Steel Co.* v. *City of Asbury Park,* 316 U. S. 502 (municipal insolvency statute, applied to preexisting bonds and interest coupons, giving creditor less than stipulated interest); *Gelfert* v. *National City Bank,* 313 U. S. 221 (statute permitting scaling down of deficiency judgment after foreclosure sale of mortgaged property—applied to mortgagee who, under law existing when mortgage was executed, was entitled to full deficiency judgment); *Veix* v. *Sixth Ward Assn.,* 310 U. S. 32 (statute limiting right which purchaser of shares in building and loan association had to withdraw them under law at time of purchase); *Honeyman* v. *Jacobs,* 306

U. S. 539 (statute prohibiting deficiency judgment where mortgagee has bid in property at foreclosure sale and value of property equals the indebtedness—applied to default occurring before the Act); *Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124 (statute, as applied to notes and deed of trust executed prior to Act, providing that where mortgagee buys in the property for less than mortgage indebtedness, his suit for deficiency may be defended on ground that value of the property equalled the debt); *Home Building & Loan Association* v. *Blaisdell*, 290 U. S. 398 (mortgage moratorium law extending period of redemption, applied to foreclosure occuring prior to Act); *Marcus Brown Holding Co.* v. *Feldman*, 256 U. S. 170 (rent control act barring actions to recover possession, applied to lease expiring prior to Act and including covenant to surrender possession on expiration of lease); *Pennsylvania Hospital* v. *Philadelphia*, 245 U. S. 20 (municipality permitted to open street through hospital grounds, despite outstanding contract under which hospital corporation had made payments of money and furnished ground for a designated street in return for agreement forbidding opening of any street through the hospital grounds without hospital's consent).

The legal theories upon which this Court has permitted invasion of accrued contract rights have varied considerably. Thus it has been said that the statute merely touches upon the remedy

rather than upon the contract right itself (*Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124; *Honeyman* v. *Jacobs*, 306 U. S. 539); or that a "reservation of essential attributes of sovereign power is * * * read into contracts as a postulate of the legal order" (*Home Building & Loan Ass'n* v. *Blaisdell*, 290 U. S. 398, 435); or that there has been "an exercise of the sovereign right of the Government to protect the * * * general welfare of the people," a power which is "paramount to any rights under contracts between individuals" (*Manigault* v. *Springs*, 199 U. S. 473, 480); or that "when contracts deal with a subject matter which lies within the control of the Congress, they have a congenital infirmity" (*Norman* v. *Baltimore & Ohio R. Co.*, 294 U. S. 240, 307–308); or that the subject matter of the legislation had already been the subject of regulation in some past period (*Veix* v. *Sixth Ward Assn.*, 310 U. S. 32). But, as this Court observed only last term, "the formal mode of reasoning [in these cases] * * * is of little moment;" they yield "this governing constitutional principle: when a widely diffused public interest has become enmeshed in a network of multitudinous private arrangements, the authority of the State to safeguard the vital interests of its people * * * is not to be gainsaid by abstracting one such arrangement from its public context and treating it as though it were an isolated private contract constitutionally immune from impairment"

(*East New York Savings Bank* v. *Hahn*, 326 U. S. 230, 232). While this was said with reference to exercise of the police power of the states, the same may be said of the exercise of the Federal war power which is at least as broad as the police power of the states (*Hamilton* v. *Kentucky Distilleries Co.*, 251 U. S. 146, 156).

These principles are squarely applicable here. The right of a licensor to royalties for the use of his patented invention derives from a grant under Congressional authority; the use of his invention by Government contractors in connection with war production relates directly to the war effort. Consequently, private contracts stipulating for patent royalties on account of war use of the invention are peculiarly within the area of federal power and subject to its operation. Whatever the value of petitioner's license rights against respondent when the Act was passed, and whatever the extent to which those rights had "accrued," Congress saw fit, in the exercise of its war powers, to decline to pay excessive royalty charges. This policy Congress chose to apply to all unpaid royalties chargeable to the Government, whether they accrued before or after the Act. The reduction, if any, in the value of the licensor's right under his license agreement as a result of this legislation no more invalidates it than did the reduction in the value of the accrued contractual rights in the cases mentioned above.

(ii) The Act regulates a subject matter which was already subject to regulation

As a practical matter, the Royalty Adjustment Act, as applied here, is no more than a further regulation of a subject matter which was regulated long before the patent and license agreement here involved came into existence. Patent owners had notice, 32 years before the act here in question, of the Congressional policy to pay just compensation, instead of an infringer's damages or profits, for use of patented inventions. Act of June 25, 1910, 36 Stat. 851. And 24 years before the instant Act, that policy was extended to permit use by a government contractor on the same terms. Act of July 1, 1918, 40 Stat. 705. Patent owners, faced with three decades of the use of the Federal power to permit use of a patented invention for a fair and just price, were not entitled to assume that Congress would allow agreements between private parties to fix exorbitant and excessive charges to the Government for wartime use of the invention.

In these circumstances, the determination by Congress that there should be equality of cost between licensed and unlicensed use by a Government contractor, and that equality should begin with any uses of the invention as to which royalties had not already been paid to the licensor at the time their excessiveness was determined, is neither unreasonable nor arbitrary. The license agreement between petitioner and respondent

"must necessarily be regarded as having been made subject to the possibility that, at some future time, Congress might so exert its whole constitutional power * * * as to render that agreement unenforceable or to impair its value." *Louisville & Nashville R. R.* v. *Mottley*, 219 U. S. 467, 482. The power of Congress to invoke the Federal war powers in order to keep the cost of governmental use of patented inventions in wartime down to reasonable charges, must surely be as free as the interstate commerce power from the fetters of "existing arrangements" and the "prophetic discernment" of private individuals. See *Sproles* v. *Binford*, 286 U. S. 374, 390–391.[15]

(iii) In any event, the exigencies of war justify the determination to reach accrued royalties

Even if the Act be viewed as touching a subject matter not heretofore regulated, the Congressional determination to reach accrued royalties is fully justified by the exigencies of war. In our view, Congress could well have determined to regulate by this statute all patent royalties chargeable to the United States upon war production, not only those accrued and outstanding, but also those already paid over to the licensor. Instead, however, roy-

[15] It is immaterial that the Act may be applied to uses of inventions prior to December 7, 1941, the date on which the United States was plunged into World War II. In the instant case, the royalties involved date back to September 1939 (R. 12, 89). The Act's application to such uses is clearly correct. The Congressional determination here is not arbitrary,

alties actually paid over to the licensor were excluded from the Royalty Adjustment Act, but covered by the Renegotiation Act (see discussion, *supra*, pp. 30–31). This underscores the fact that the Royalty Adjustment Act, like the Renegotiation Act, is but one of the measures adopted by Congress to cope with the widespread economic dislocations occasioned by production for total war. Considering the colossal problems which confronted the Congress with the coming of war, it could not reasonably be expected that the Congress immediately would enact a comprehensive legislative program to cover all the problems stemming from the wartime crisis. Even within

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nor does it "involve an impossibility." Cf. *Old Dominion Land Co.* v. *United States*, 269 U. S. 55, 66. The "conditions of wartime production" referred to in Sections 1 and 2 of the Act, which caused pre-existing royalty rates to become exorbitant, did not arise overnight on December 7, 1941. They were present in September 1940 when Congress passed the Selective Training and Service Act (54 Stat. 885, 50 U. S. C. App., Supp. V, 301–318), and in May 1941 when the President proclaimed an unlimited national emergency (Proc. No. 2487, 6 F. R. 2617, 50 U. S. C. App., Supp. V, pp. 1079–1080). The impact of the impending world conflict was beginning to be felt in February 1936, when "in the interest of national defense" Congress prohibited the export of tin-plate scrap except upon license issued by the President (Act of February 15, 1936, 49 Stat. 1140, 50 U. S. C. 86–88); and in June 1938, when Congress authorized the Secretary of War to place educational orders for munitions of war "needed in the military service" in order "to familiarize commercial and manufacturing establishments with the manufacture of such munitions" (Act of June 16, 1938, 52 Stat. 707, 50 U. S. C. 91–94).

the field of procurement, it was vital that emphasis be placed first upon production. Matters of price and profits, while important, were secondary at the moment. The novelties and uncertainties in wartime production counseled against hasty action on prices and profits. In these circumstances, it was to be expected that some delay would ensue before Congress could formulate appropriate regulatory programs such as were embodied in the Renegotiation Act and the Royalty Adjustment Act. And it is inconceivable that, because of such necessary delay, the Congress, from the standpoint of constitutional power, could be rendered helpless to repair the damage done in the period intervening between the outbreak of war and the enactment of remedial legislation.

This Court has recognized that even in peacetime there must be, with respect to a certain type of legislative problem, a time lag between the occurrence of events needing regulation and enactment of the requisite legislation; and in such case, the retroactive aspect of the legislation has not in any way impaired its validity. This has been true in the field of taxation, where retroactivity in its purest form has been fully sustained. Thus, in *Welch* v. *Henry,* 305 U. S. 134, this Court upheld the validity of a Wisconsin income tax statute of 1935 imposing a tax on

income received in 1933. See also *Billings* v. *United States*, 232 U. S. 261; *Hecht* v. *Malley*, 265 U. S. 144, 164; *United States* v. *Hudson*, 299 U. S. 498, 500. If Wisconsin can reach back over a period of more than two years to recapture ordinary profits on transactions long since completed, it would seem clear that Congress can, by an exercise of the war power, reach back over a comparable period to regulate unreasonable royalties accruing prior to enactment of the Royalty Adjustment Act. Surely the war power, for such purposes, is at least as broad as a state's power of taxation.

b. The Act May Properly Apply to Royalties Accruing Between the Enactment of the Act and the Promulgation of the Royalty Adjustment Order.

The principles discussed above sustain the application of the Act, as a valid exercise of the war power, to all uses of a patented invention, before or after the Act was passed. However, in respect of uses occurring after the Act but before issuance of an order thereunder, the Act is supportable on additional grounds.

Regardless of whatever notice patent owners had before the Act (see *supra*, pp. 51–52), it is perfectly clear that adoption of the Act notified patent owners that royalties for the use of their inventions in war production would be subject to regulation, and the issuance of the Royalty Ad-

justment Order in any one case could hardly come as a surprise. In this aspect, the patent owner's contractual rights, upon the enactment of the Act, were affected no differently from the rights of a party to an executory contract whose subject matter becomes the object of a regulatory statute. And a regulatory statute is not invalid merely because it sets aside or reduces the value of a prior private contract (see *supra*, pp. 45–50).

There can be no valid objection to adjustment of royalties for uses of the patented invention between the issuance of a notice and the promulgation of a Royalty Adjustment Order, for the notice gives advice to the particular patent owner that thereafter any royalties for uses of his invention will be subject to adjustment. The notice device, as shown by the legislative history of the Act, is a measure protecting the patent owner. Thus, at the hearings, a representative of the Navy Department stated:

> I may say that I feel that if we do not have the provision in as it stands there will be less opportunity for discussion with the owner of the patent relative to the amounts of the royalties, and it would be necessary for more precipitate action to stop the payment of royalties which we feel are excessive, and I feel that if you want to have the chance to discuss those things rather than rush into them, it is better to wait and even let the delivery of goods continue

and leave the matter for discussion between the Department and the owner of the patent. (Hearings, pp. 77–78, fn. 10, *supra*, p. 29.)

It would be anomalous if royalties for uses of the patented invention prior to the order were held to be immune from adjustment because of the attempted ameliorative effects of the notice and order procedure under the Act. Under its war powers, Congress might have entirely dispensed with any administrative procedure in royalty adjustment, and might have enacted a blanket statute prohibiting further payment of stipulated royalties on patented inventions used in war production, but allowing just compensation to all licensors through suits in the Court of Claims. In lieu of such radical procedure, Congress employed the administrative method prescribed in the Royalty Adjustment Act, which permits adjustment of royalties upon a selective basis. The more liberal procedures of the Royalty Adjustment Act should not be made the basis for immunizing from adjustment royalties for uses of patented inventions between the enactment of the Act and the issuance of a royalty adjustment order.

2. If a claim for accrued royalties is "taken" by the Act, fair and just compensation is provided

Even if petitioner's right to accrued royalties

were inviolable, that would not warrant holding the statute unconstitutional. Under Section 2 of the Act, petitioner may recover "fair and just compensation," and if, for constitutional or any other reason, the value of such use prior to the Act is more than the figure stipulated in the Royalty Adjustment Order, then petitioner has an adequate remedy to recover just compensation for such accrued royalties, even at the royalty rate fixed in the license, if that is proper. Such a right is, of course, sufficient to meet the requirements of the Fifth Amendment. *Hurley* v. *Kincaid,* 285 U. S. 95; *Crozier* v. *Krupp,* 224 U. S. 290. In assuring the patent owner fair and just compensation, Congress has, in effect, said that it only intends to reach royalties retroactively, to the extent that it may constitutionally do so. Accordingly, there is no basis for holding the retroactive portion of the Act unconstitutional in this proceeding. Cf. *Anniston Mfg. Co.* v. *Davis,* 301 U. S. 337.

D. THE ACT IS VALID AS AN EXERCISE OF THE EMINENT DOMAIN POWER IN AID OF THE WAR POWER

Under Point C above, we have argued that the Act is valid as a wartime regulatory measure akin to price-fixing. If, however, the war power alone is inadequate to support the validity of the Act, we submit that the power of eminent domain, in conjunction with the war power, offers the

requisite constitutional foundation for the Act. As the court below observed, the Act "is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power. It simply goes the one step further to cover the exercise of that power in the field of patents, which had already been made by the Act of 1910, as amended" (R. 120).

1. The Act appropriates a new license in return for just compensation

The Royalty Adjustment Act may be viewed as the condemnation during time of war of a license under patented inventions, which is independent of the consensual license already held by the contractor, in return for a right to just compensation from the Government.

Eminent domain, an inherent sovereign power, enables the United States to appropriate *any* private property for use in its constitutional activities. *Kohl* v. *United States*, 91 U. S. 367, 371, 374; *Albert Hanson Lumber Co., Ltd.* v. *United States*, 261 U. S. 581, 587. Patents are a species of property and as such are subject to the power of eminent domain. *Crozier* v. *Krupp*, 224 U. S. 290, 305, 306. The peacetime exercise of eminent domain by the United States is most commonly applied to real property (Act of August 1, 1888, 25 Stat. 357, as amended, 40 U. S. C. 257–258), but in wartime the scope of requisitions inevitably broadens until, to meet crises, they may be ex-

tended to almost every aspect of the economic life of the nation."[16]

And, interests in patents have been no exception.[17] Viewed as a "taking," therefore, the Royalty Adjustment Act merely represents a wartime

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[16] During World War I, statutes authorized requisition of the following types of property: Patents—Act of March 4, 1917, 39 Stat. 1168, 1169; Food, feeds, fuel, factories, packing houses, coal mines, and other commodities—Lever Act of August 10, 1917, Secs. 10, 12, 40 Stat. 276, 279; Ships, contracts relating thereto, and for shipbuilding purposes, lands, plants, and transportation facilities—Emergency Shipping Act, 40 Stat. 182, 183, 535, 1022; Housing for workers in essential war industries and for Government workers in the District of Columbia—War Housing Act, 40 Stat. 550, 595; Railroads—Act of March 21, 1918, 40 Stat. 451; Communication control, telephone and telegraph systems—Act of July 16, 1918, 40 Stat. 904; Ores, metals, and minerals needed for the national security and defense—Fuel Control Act, 40 Stat. 1009; Use of United States vessels at specified rates of hire—Act of July 18, 1918, 40 Stat. 913, 915; Ordnance proving grounds—Act of April 26, 1918, 40 Stat. 537. These acts are for the most part not now in effect, having expired or been repealed.

During World War II, statutes authorized requisition of the following types of property: Any military or naval equipment, supplies, or munitions or component parts thereof needed for the defense of the United States—Requisitioning Act of October 16, 1941, as amended, 50 U. S. C. App., Supp. V, 721, 636, 636a; Possession and operation of strike-bound plants—Section 9 of Selective Service and Training Act of 1940, as amended, 50 U. S. C. App., Supp. V, 309; Real and appurtenant personal property for war purposes—Act of March 27, 1942, 50 U. S. C. App., Supp. V, 632.

[17] Act of March 4, 1917, 39 Stat. 1168, 1169 (patents relating to the manufacture and development of aircraft).

application of eminent domain power to intangible property interests in inventions.[18]

Furthermore the Act plainly satisfies the two constitutional limitations upon the eminent domain power—that just compensation be provided (*Jacobs* v. *United States,* 290 U. S. 13, 16), and that the property be taken for a public use (*Shoemaker* v. *United States,* 147 U. S. 282, 298).[19]

a. Just Compensation

Although the right to compensation for property taken under eminent domain is inherent in the Fifth Amendment and need not rest upon statutory provisions (*Jacobs* v. *United States, supra,* at p. 16), Section 2 of the Act makes the remedy specific by authorizing aggrieved licensors to sue the United States for fair and just compensation. This provision is sufficient under the Fifth Amendment. *Hurley* v. *Kincaid,* 285 U. S. 95; *Crozier* v. *Krupp,* 224 U. S. 290.

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[18] At the hearings, the War Department representative stated that legislation now enables that department to "requisition or condemn every kind or species of property except patents. The War Department does not believe that inventions or their resultant patents are entitled to any greater degree of sanctity than other property." Hearings, p. 21. To the same effect was the testimony of representatives of the Department of Justice, *id.*, p. 48; see also H. Rep., pp. 4, 6; S. Rep., pp. 2, 4 (fn. 10, *supra*, p. 29).

[19] The requirements of the Fifth Amendment were discussed extensively during the hearings on the Act, and were deemed to be fulfilled. Hearings, pp. 20, 23; H. Rep., p. 6; see also S. Rep., p. 4 (fn. 10, *supra*, p. 29).

Petitioner complains (Br. 45) that the Act violates the Fifth Amendment in that it destroys petitioner's right to sue the licensee. But a substituted right to sue the United States, rather than a government contractor, for compensation "is as comprehensive as the requirement of the Constitution." *Yearsley* v. *Ross Construction Co.*, 309 U. S. 18, 22. "The particular remedy existing at the date of the [license] contract may be altogether abrogated if another equally effective for the enforcement of the obligation remains or is substituted for the one taken away." *Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124, 128. See also *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337; *Honeyman* v. *Hanan*, 302 U. S. 375; *Honeyman* v. *Jacobs*, 306 U. S. 539, 542; *Block* v. *Hirsh*, 256 U. S. 135, 158.[20]

Petitioner further contends (Br. 47–49, 69–71) that the right to proceed against the United States is not the "exact equivalent" of his former right to

[20] Petitioner has argued (Br. 41) that the Act violates the Seventh Amendment to the Constitution because it does not provide for a jury trial on the question of validity or damages, i. e., the value of the property taken. The limitations of the Seventh Amendment have no bearing upon suits brought against the United States, for when the sovereign consents to be sued, that consent may be so conditioned as to dispense with jury trial. See *United States* v. *Sherwood*, 312 U. S. 584, 587. Moreover, this Court has consistently ruled that due process of law does not require a trial by jury in condemnation cases. *Dohany* v. *Rogers*, 281 U. S. 362, 369; *Crane* v. *Hahlo*, 258 U. S. 142, 147; *Bauman* v. *Ross*, 167 U. S. 548, 593; *Kohl* v. *United States*, 91 U. S. 367, 376.

proceed against the licensee, since (1) the United States may challenge the patent's validity, a right normally denied a licensee, and (2) the "fair and just compensation" must take "into account the conditions of wartime production," and may thus be less than the royalties called for by the license agreement. From this, petitioner concludes that Section 2 is violative of the Fifth Amendment, citing *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

Petitioner erroneously assumes that the Act substitutes the United States for the licensee under the license agreement. When the United States issues a Royalty Adjustment Order, it is not substituted for the licensee, but takes an independent license pursuant to its powers of eminent domain (Hearings, pp. 48, 55, 71, fn. 10, *supra*, p. 29). The new license in effect provides that the royalty rate is to be the fair and just value of the use of the invention, and that the invalidity of the patent may be asserted as a defense in a suit for compensation (Secs. 1, 2). Consequently, the plea of estoppel, formerly available to the licensor when suing for royalties under the consensual license, becomes inapplicable when the licensor is suing for compensation under the appropriated license. The sponsors of the Act pointed out that to deny the Government the right to assert the invalidity of the patent "would not only be inconsistent with the essential purpose underlying

this bill, but would run counter to the tradition in all condemnation and eminent domain cases" (Hearings, pp. 48, 55, fn. 10, *supra*, p. 29).

The estoppel between licensee and licensor is merely an element in the value of their negotiated license, not dissimilar in this respect from the stipulated royalty—an agreement between the two parties as to the value of the commercial use of the patent.[21] But this cannot bind the sovereign who takes the subject matter of the contract. In determining compensation payable by the Government for a taking, the courts will consider the *actual* value of the property at the time of the taking (*Russell Co.* v. *United States*, 261 U. S. 514, 523); and the price for the property fixed in a contract between the property owner and private purchaser, while it "may be evidence of the value of what is taken," "is not the criterion of value" nor conclusive upon the courts. *United States* v. *General Motors Corporation*, 323 U. S. 373, 383. Petitioner is entitled to fair and just compensation for the use of the invention in behalf of the Government. If petitioner's patent is invalid, the value of such use could properly be fixed only at zero, as if it were any other kind of worthless article. The opportuni[illegible] afforded by the Act to have a court de-

[21] Respondent alleged in the district court that it entered into the instant license agreement with petitioner to avoid "the futility of expending large sums of money in contesting and litigating" a patent of "doubtful validity" (R. 3).

termine the fair value of the property taken, and to obtain compensation accordingly meets the requirements of the Fifth Amendment. *Hurley* v. *Kincaid*, 285 U. S. 95; *Crozier* v. *Krupp*, 224 U. S. 290.

Richmond Screw Anchor Co. v. *United States*, 275 U. S. 331, cited by petitioner (Br. 37, 47, 70), far from supporting petitioner's argument, confirms the Government's position. In that case, a suit against the United States under the 1910 Act as amended in 1918, brought by the assignee of a patent for the use of the invention by a government contractor prior to the assignment, was met with the defense that the suit was barred by Section 3477 of the Revised Statutes, forbidding the assignment of claims against the Government. This Court held that to construe R. S. 3477 as applicable would "raise a serious question as to the constitutionality of the Act of 1918," since it must be presumed "that Congress in the passage of the Act * * * intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. It was taking away assignable claims against the contractor for the latter's infringement of his patent. The assignability of such claims was an important element in their value and a matter to be taken into account in providing for their just equivalent" (at 345). It is thus clear that the "exact equivalent" to which this Court referred was not an exact equiva-

lent in terms of money, but an assignable cause of action against the United States in lieu of an assignable cause of action against the contractor. The Court pointed out that if "section 3477 applies and these assignments are rendered void, the effect of the Act of 1918 is to take away from the assignee and present owner not only the cause of action against the Government, but also to deprive it of the cause of action against the infringing contractor for injury by his infringement" (275 U. S. at 345).

That this Court was not concerned with an "exact equivalent" in terms of compensation is to be seen from the fact that the rights of a patent owner or his assignee against an infringer (profits plus a maximum of treble damages, 35 U. S. C. 67, 70), may amount to considerably more than his right to "reasonable and entire compensation" under the 1910 Act as amended. See *Olsson* v. *United States*, 87 C. Cls. 642. Yet, in both the *Richmond* case, *supra*, and in *Crozier* v. *Krupp*, 224 U. S. 290, this Court recognized that the substitution of a right to "reasonable and entire compensation" for the patent owner's rights against an infringer, meets constitutional requirements.

b. Public Use

The second requirement of condemnation—that the intended use be public—is also clearly met, since it is not denied that the structures here

involved have been used in equipment required for the prosecution of the war. This Court has upheld the taking of licenses under patents not only for direct use by the Government (*Crozier* v. *Krupp*, 224 U. S. 290, 305), but also for use by its contractors (*Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331). Cf. *International Paper Co.* v. *United States*, 282 U. S. 399. The necessity for the taking is a question solely for Congress. *North Laramie Land Co.* v. *Hoffman*, 268 U. S. 276, 284; *Bragg* v. *Weaver*, 251 U. S. 57, 58; *Old Dominion Land Co.* v. *United States*, 269 U. S. 55, 66; *United States ex rel. Tennessee Valley Authority* v. *Welch*, No. 528, last Term, decided March 25, 1946. Congress has here decided that the necessity exists. See Section 1 of the Act (*infra*, p. 81).

2. The Act may apply to uses under a pre-existing license agreement

As noted, *supra*, p. 63, petitioner's license agreement with respondent is not what is "taken" under the Act. The Act authorizes the appropriation of a license from the patent owner independent of and separate from the consensual license already held by the government contractor or subcontractor, and it is for this independent license that the United States is bound to pay fair and just compensation. The appropriated license then covers all use by Government

contractors or subcontractors, past and future, for which royalties under the consensual license had not been paid to the licensor prior to the notice. The legislative materials leave no doubt that the existing license agreement was not the property taken. See H. Rep., p. 6; Hearings, pp. 48, 71 (fn. 10, *supra*, p. 29).

It is true that the Royalty Adjustment Order thereby prevents full performance of the preexisting license agreement. But this is due to the fact that, by appropriating an independent license to use the invention, the United States is in effect taking the subject matter of the license agreement between the Government contractor and the patent owner (the use of the invention for the Government), thus preventing the performance or application of that license agreement in respect of such use. In other words, since the use of the invention under the new license would otherwise be covered by the consensual license, the effect of the statute is temporarily and partially to suspend or frustrate performance of the private agreement, except in so far as its operation is permitted by the Royalty Adjustment Order. It is clear that frustration of a pre-existing contract by condemnation of its subject matter neither violates any constitutional guarantee nor constitutes a "taking" of the frustrated contract or of the "money" due thereunder. *Omnia Co.* v. *United States*, 261 U. S.

502.[22] "There can be no right to restrain by contract the power of eminent domain" and "any contract by which it was sought to accomplish that result would be inefficacious for want of power." *Pennsylvania Hospital* v. *Philadelphia*, 245 U. S. 20, 23. Hence, the pre-existing license agreement between petitioner and respondent cannot preclude the application of the Federal power of eminent domain to uses of the invention which were covered by that license.

Principles of eminent domain are equally available to support the application of the statute to royalties which accrued before it was enacted. This is so because the sovereign's power to take a license under a patent in return for just compensation necessarily includes the power to pre-

[22] The doctrine of the *Omnia* case was recently cited with approval in *United States ex rel. T. V. A.* v. *Powelson*, 319 U. S. 266, 282. See also *Mullen Benevolent Corp.* v. *United States*, 290 U. S. 89, 95. These citations would seem to dispel any notion that the *Omnia* decision had been weakened by *Brooks-Scanlon Corporation* v. *United States*, 265 U. S. 106. In the *Brooks-Scanlon* case, the Government not only ordered the physical taking of the vessel, but directed the shipbuilder to "proceed in conformity with the requirements" of Brooks-Scanlon's contract (265 U. S. at 117), and this Court found that by such an order the Government "put itself in the shoes of [Brooks-Scanlon] and took from [it] and appropriated to the use of the United States all the rights and advantages that an assignee of the contract would have had" (at 120). Here there was no substitution under the license agreement. See Sec. 2, authorizing the defense of validity (which the licensee is normally estopped to assert) in a suit for just compensation (Appendix A, *infra*, pp. 82–83).

scribe the terms and conditions of the license, in order that the interest taken may best serve the sovereign's purpose.

Whatever type of license could be the subject matter of a voluntary agreement between the patent owner and another person, the sovereign may requisition under the power of eminent domain; by this *in invitum* type of sale, the sovereign can in effect write any type of license he wants, and then pay the patent owner whatever just compensation the Constitution requires.

It is, of course, clear that a patent owner may issue a license for part or all of the patent term; for some or all of the potential uses of the invention; or under one or more of the claims of the patent. *Agawam Company* v. *Jordan,* 7 Wall. 583; *Ethyl Gasoline Corporation* v. *United States,* 309 U. S. 436, 456. Likewise he may grant a license which dates back prior to the execution of the license. Cf. *Western Battery & Supply Co.* v. *Hazelett Storage Battery Co.,* 61 F. 2d 220, 231 (C. C. A. 8). By the same token, the sovereign can requisition such a license if it deems this necessary or proper: a license for part of the patent term, for some of the uses of the invention, under some of the claims, or for a period in the past as well as for one in the future. So long as the type of instrument desired is known and permissible under the patent, the sovereign is as free to acquire it by eminent domain as by a consensual transaction with the patent owner.

The only difference is that the consideration is left to a court rather than to the agreement of the parties.

There is nothing in the nature of a license which would preclude the sovereign from taking one which dates back to a period prior to the taking. This Court has said:

> A license is not an assignment of any interest in the patent. It is a mere permission granted by the patentee. It may be a license to make, sell and use, or it may be limited to any one of these separable rights. If it be a license to use, it operates only as a right to use without being liable as an infringer. If a licensee be sued, he can escape liability to the patentee for the use of his invention by showing that the use is within his license. But if his use be one prohibited by the license, the latter is of no avail as a defense. As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee. Robinson on Patents, §§ 806, 808.[28]

There is no reason why the patentee may not waive his right to sue for prior use as well as

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[28] *Henry* v. *A. B. Dick Co.*, 224 U. S. 1, 24. The decision in this case was overruled in *Motion Picture Patents Company* v. *Universal Film Manufacturing Company*, 243 U. S. 502, but the description of the nature of a license has since been reaffirmed. See *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175. Petitioner apparently agrees that a patent license is merely a waiver of a right to sue for infringement (Supp. Br. 4).

future use. Consequently, the sovereign would seem free to take, by eminent domain, a license which is both retroactive and prospective.

It is true that the Act, as applied to uses occurring prior to its enactment, involves a retrospective exercise of the eminent domain power, and in that aspect represents a relatively novel use of that power. But that is no cause for striking down the Act as unconstitutional. The unusual conditions occasioned by total war often necessitate unusual remedies. And this Court has, even in peacetime, countenanced a retroactive exercise of the sovereign power of eminent domain. Cf. *Shoshone Tribe* v. *United States*, 299 U. S. 476. If the eminent domain power may be so used retroactively in peacetime, surely it may be exercised retroactively under the pressures and necessities of total war.

E. THE AMOUNT RECOVERABLE AS JUST COMPENSATION IS DEPENDENT UPON THE EVIDENCE ADDUCED BEFORE THE COURT OF CLAIMS; IF THE PATENT IS VALID, PETITIONER'S RIGHTS TO ROYALTIES UNDER ITS CONTRACT WILL BE FULLY PRESERVED

The order restoring this case to the docket for reargument requests that special consideration in the briefs and argument be given, *inter alia*, to the following question:

> Whether sec. 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, royalties stipulated to

be paid under its contract with respondent, Timken-Detroit Axle Company.

As already noted, *supra*, p. 31, the Government concedes, for the purpose of this case, that the stipulated royalties in the instant case are reasonable, if the patent is valid. Therefore, the only issue to be adjudicated in the Court of Claims suit is the validity of the patent. If petitioner can there establish that the patent is valid, petitioner will be entitled to recover the full amount of the stipulated royalties;[24] should the patent be found invalid, petitioner will be entitled to recover nothing.

If there were a question here as to the reasonableness of the stipulated royalties (apart from the patent's validity), there would be no sound basis, on the present state of the record, for determining what amount the Court of Claims could properly award petitioner as "fair and just compensation * * * taking into account the conditions of wartime production" (Appendix A, *infra*, p. 83). Application of the statutory formula requires not only the construction of the language

[24] Of course, as a condition precedent to recovery, petitioner must show that the transfer cases in question are covered by the patent, and the District Court herein has already ruled that these transfer cases are not covered by the patent (R. 50). Accordingly, if that judgment were affirmed by the Circuit Court of Appeals on remand, the matter would be *res judicata* as to all the parties (the United States having intervened after the decision of the District Court), and petitioner would obviously have no further cause of action either in the Court of Claims or elsewhere.

used, but the taking of evidence on the issue of value, for in any suit for just compensation it is the particular facts of each case that determine the precise amount of recovery.

In order to be fully responsive to Question 2 propounded by this Court in its order for reargument, the following observations can be made with respect to the meaning of the standards of compensation specified in Section 2 of the Act. That section uses the phrase "fair and just compensation" as distinguished from the phrase "reasonable and entire compensation" employed in the Act of June 25, 1910, as amended (36 Stat. 851, 40 Stat. 705; Appendix B, *infra*, p. 87). This difference in language is not accounted for in the legislative history of the Act, and there is some suggestion that no different result was intended. While the Senate Report (S. Rep. 1640, 77th Cong., 2d Sess.) does not advert to the question, the House Report states that "the licensor has an action against the Government for such sum, if any, as he may be entitled to, in addition to the amount already paid, as would make the total constitute fair and just compensation. *This is all he could recover in cases of unlicensed use of an invention*" (Italics supplied; H. Rep. 2602, 77th Cong., 2d Sess., p. 6). This explanation suggests that, despite the variance in language between the Royalty Adjustment Act and the 1910 Act, as amended, the measure of recovery in the Court of Claims was intended to be the same. Further support

for this view appears from the fact that the 1910 Act, as amended, has been interpreted by the Court of Claims as calling for a "reasonable" royalty,[25] and the fact that in the hearings on the Royalty Adjustment Act, several of the sponsors of the proposed bill, in substance, characterized it as affording a "reasonable" royalty to the patent owner.[26]

A cardinal distinction between the language of the 1910 Act, as amended, and the Royalty Adjustment Act, is the explicit direction in the later act that the Court should award fair and just compensation, "taking into account the conditions of wartime production." It may well be that even without this direction, the Court, in determining a reasonable royalty, would take the conditions of wartime production into account, for manifestly, what is a reasonable royalty rate in peacetime may become unreasonable by virtue of the tremendous increases in wartime production. However, the express direction by Congress eliminates any question on the matter.

F. NO PROBLEM OF PROCEDURAL DUE PROCESS IS PRESENT HERE

Petitioner contends that the notice and "hearing" before the War Department were inadequate under the Fifth Amendment and that the War Department's "determination" that the patent

[25] *Marconi Wireless Telegraph Co.* v. *United States*, 99 C. Cls. 1, 49; vacated in part and affirmed in part, 320 U. S. 1; *National Electric Signaling Co.* v. *United States*, 99 C. Cls. 646, 661.

[26] See Hearings, pp. 23, 41–42, 48; fn. 10, *supra*, p. 28.

was invalid is objectionable because not based upon any evidence before the administrative board, nor upon any findings by the Board (Br. 49–50). These contentions are wholly without merit, for they misapprehend both the requirements of the Act and the commands of due process.

Under Section 1 of the Act, the patent owner or licensee, upon request, is entitled to an opportunity to "present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any," to be fixed in the Royalty Adjustment Order (Appendix A, *infra,* p. 82). It is plain that Congress did not intend that a formal hearing be had before a quasi-judicial body. The "hearing" provided by Section 1 was designed to "afford the licensor or licensee * * * a reasonable opportunity to discuss * * * the amounts and rates of royalties before the issuance of any order fixing such amounts or rates, without danger of delaying or interfering with the war effort, which a formal hearing might entail" (H. Rep., p. 2 (fn. 10, *supra,* p. 29)). The procedure was intended to promote amicable adjustments out of court. This is substantiated by Section 3 of the Act, which allows the department or agency concerned to settle with the patent owner whether or not a royalty adjustment order has been issued.[27]

[27] See also H. Rep., p. 5; Hearings, p. 19 (fn. 10, *supra,* p. 29).

The provisions for an informal conference raise no constitutional question. The Constitution does not require that an owner who is guaranteed just compensation be given a hearing before the administrative board which initially determines the amount of compensation to be paid, so long as he has a right to judicial review of the administrative determination, with a full hearing in the court.[28] Since the Royalty Adjustment Act permits *de novo* trial in the Court of Claims to determine just compensation, regardless of the outcome of the conference, there can be no constitutional objection to the procedure.

G. IF ANY CONSTITUTIONAL ISSUE IS POSED BY THE INSTANT PROCEEDING, IT IS NARROW IN SCOPE

Assuming that the validity of the Royalty Adjustment Act may properly be considered in this case, the constitutional issue posed is narrow in scope. For, as applied here, the only effect of the Act is to substitute the Court of Claims for the district court as the tribunal for adjudicating petitioner's claim to royalties, and to substitute the United States for the licensee as the formal adversary in the case.

Petitioner appealed to the court below solely to review the determination by the district court that certain of respondent's transfer cases were outside the patent. The court below, because of

[28] Cf. *Bragg* v. *Weaver*, 251 U. S. 57, 59; *North Laramie Land Co.* v. *Hoffman*, 268 U. S. 276, 285–286; *Crozier* v. *Krupp*, 224 U. S. 290, 306.

the intervening enactment of the Act and the issuance of the Royalty Adjustment Order, declined to pass upon the correctness of the district court's holding of noncoverage, and remitted petitioner to a suit in the Court of Claims, under Section 2 of the Act, for fair and just compensation. Until that suit is brought to a conclusion, petitioner cannot show that it has in any way been injured by the Act. Conceivably the Court of Claims may decide the issues of patentability and coverage in petitioner's favor and so construe "fair and just compensation" as to award petitioner an amount equal to the stipulated royalties. Therefore, in the present posture of this case, the only impact of the Act upon petitioner is to substitute the Court of Claims for the district court as the tribunal for adjudicating petitioner's claim, and to substitute the United States for respondent as the formal adversary in the suit. Cf. *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337. The immediate constitutional question presented to this Court, therefore, is whether such a substitution in forum and formal adversary is within the power of Congress. Any ruling upon the broader aspects of the Act would violate two fundamental canons of constitutional adjudication, namely that this Court "will not 'anticipate a question of constitutional law in advance of the necessity of deciding it'" and that it "will not 'formulate a rule of constitutional law broader than is required by the precise facts to which it

is to be applied' " (Brandeis, J., concurring in *Ashwander* v. *Tennessee Valley Authority*, 297 U. S. 288, 346–347).

Insofar as the substitutions in forum and formal adversary are concerned, there can be little question that Congress has the power to prescribe such changes. "The particular remedy existing at the date of the [license] contract may be altogether abrogated if another equally effective for the enforcement of the obligation remains or is substituted for the one taken away." *Richmond Corp.* v. *Wachovia Bank*, 300 U. S. 124, 128. See also *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337; *Honeyman* v. *Hanan*, 302 U. S. 375; *Honeyman* v. *Jacobs*, 306 U. S. 539, 542; *Block* v. *Hirsh*, 256 U. S. 135, 158; *Yearsley* v. *Ross Construction Co.*, 309 U. S. 18, 22.

There is nothing here present to show that petitioner's remedy before the Court of Claims, with ultimate review by this Court, will not be equally effective to preserve whatever right petitioner may have to the stipulated royalties. As already noted, the Court of Claims may conceivably decide the issue of patentability in petitioner's favor and so construe "fair and just compensation" as to award petitioner an amount equal to the stipulated royalties. Therefore, this Court should not now "enter into a purely speculative inquiry for the purpose of condemning statutory provisions which have not been tried out and the effect of which cannot now be definitely

perceived." *Anniston Mfg. Co.* v. *Davis*, 301 U. S. 337, 355. Moreover, we know of no reason why the Court of Claims, or this Court upon review of the judgment of the Court of Claims, would not be free to decide all questions of law, including any challenge to the validity of the statute itself. In this manner, the substitute remedy provided by the Act would preserve to petitioner every constitutional right to which it is entitled. Cf. *Anniston Mfg. Co.* v. *Davis, supra.* We submit, therefore, that the Act, as applied here, in providing for a substitution in forum and formal adversary, is clearly constitutional.

CONCLUSION

The Royalty Adjustment Act is constitutional. However, it is respectfully submitted that the validity of the Act should not be determined at the present stage of the proceedings, and that the case should be remanded for further consideration of the nonconstitutional questions that may be dispositive of the entire controversy.

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APPENDIX A

The Royalty Adjustment Act of October 31, 1942 (56 Stat. 1013, 35 U. S. C., Supp. V, 89–96) reads as follows:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided,*

however, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to

recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price

to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the

United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (*l*) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be

heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

APPENDIX B

The Act of June 25, 1910, as amended by the Act of July 1, 1918 (36 Stat. 851, 40 Stat. 705; 35 U. S. C. 68) reads as follows:

> Whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however,* That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further,* That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. [redacted] 11

ALMA MOTOR COMPANY,
Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

BRIEF OF AMICI CURIAE

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. 806

ALMA MOTOR COMPANY,
Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

BRIEF OF AMICI CURIAE

This brief is filed on behalf of Roscoe A. Coffman, who in 1932 gave to Federal Laboratories, Inc., an exclusive license under a United States patent dated September 16, 1930, and certain patent applications to make, use and sell starters for internal combustion motors and shells to start the same, for which the licensee agreed to pay a royalty equal to 6% of the net selling price. In December, 1943, the War Department and the Navy Department issued Royalty Adjustment Orders directing Federal Laboratories, Inc., and Breeze Corporations, Inc. (its exclusive sales agent) to pay over to the Treasurer of the United States the balance of all royalties specified in the license on account of manufacture, use,

sale or other disposition of the inventions for the War Department and the Navy Department which had theretofore occurred or should thereafter occur while Sections 1 and 2 of the Royalty Adjustment Act remain in force, in excess of $8 upon each starter sold to or for either department and no royalties upon parts and cartridges sold to or for either department, and not to exceed $50,000 to be paid to Coffman in each calendar year commencing January 1, 1943. These orders are substantially to the same effect as the order involved in the case at bar (R. 93), except for the fact that only a part of the royalties on War Department and Navy Department work under Coffman's contract is taken from him, instead of all the royalties as in the case at bar.

Coffman sued Federal Laboratories, Inc., and Breeze Corporations, Inc., in the District Court for the Western District of Pennsylvania for an accounting of the royalties due him under the terms of the license agreement, an injunction against paying over the royalties to the Treasurer of the United States and judgment for $371,625.96, which he charged was due under the contract, with interest. The United States of America was granted leave to intervene to support the constitutionality and validity of the Royalty Adjustment Act and of the Royalty Adjustment Orders. The case came before this Court at the present term at No. 485. The Court held that Coffman had shown no ground for an injunction, but since Federal Laboratories, Inc., had set up as a defense the Royalty Adjustment Orders prohibiting payment of the royalties to him, he would be free upon that issue to contest the constitutional validity of the orders: *Coffman v. Federal Laboratories, Inc., et al.,*

65 S. Ct. 303, at p. 304. The action is to be tried in the District Court as soon as its calendar permits.

It is our contention that the Act of October 31, 1942, c. 634, 56 Stat. 1013, 35 U. S. C. §§ 89-96, known as the Royalty Adjustment Act, and the War and Navy Department Orders involved in the case at bar and similar cases contravene the Fifth Amendment to the Constitution.

In the briefs of the Government in the case at bar and similar cases it is argued that the Royalty Adjustment Act is sustainable as a proper exercise of the war and patent powers and the power of eminent domain.

The power of eminent domain is an incidental, not an independent, power. It is given to Congress by Art. I, Sec. 8, cl. 18, of the Constitution and may be exercised only when it is necessary and proper to carry into execution one or more of the powers given by the other seventeen clauses of that section. The contention of the Government, therefore, is reduced to the proposition that the Act is sustainable as an exercise of the war and patent powers.

It is obvious that the taking of royalties due under a license contract cannot be justified under the patent power. The Act applies to inventions, "whether patented or unpatented" (Section 1). It deals with all license contracts relating to such inventions, not merely licenses under patents. Moreover, the patent power is a power "to promote the Progress of Science and useful Arts, by securing for limited Times to * * * Inventors the exclusive Right to their respective * * * Discoveries" (Constitution, Art. I, Sec. 8, cl. 8). Clearly the effect of the Royalty Adjustment Act is not to secure to an inventor the exclusive right to his discovery. Its

effect is to render that right insecure by reducing its value or destroying it, as has been attempted in the case at bar. The contention of the Government, therefore, is reduced to the proposition that the Act is sustainable as an exercise of the war power.

The war power is subject to the restrictions of the Fifth Amendment to the Constitution. There has been no doubt about the applicability of these restrictions to the exercise of the war power since the decision in *Ex parte Milligan*, 4 Wall. 2, where the Court, referring to the Fourth, Fifth and Sixth Amendments, said by Mr. Justice Davis (pp. 120-121):

> "The Constitution of the United States is a law for rulers and people, equally in war and in peace, and covers with the shield of its protection all classes of men, at all times, and under all circumstances. No doctrine, involving more pernicious consequences, was ever invented by the wit of man than that any of its provisions can be suspended during any of the great exigencies of government. Such a doctrine leads directly to anarchy or despotism, but the theory of necessity on which it is based is false; for the government, within the Constitution, has all the powers granted to it, which are necessary to preserve its existence; as has been happily proved by the result of the great effort to throw off its just authority."

See also *United States v. Russell*, 13 Wall. 623, by Mr. Justice Clifford, at pp. 627-628; *United States v. Lee*, 106 U. S. 196, by Mr. Justice Miller, at p. 218; *Hamilton v. Kentucky Distilleries Co.*, 251 U. S. 146, by Mr. Justice Brandeis, at p. 155; *United States v. Cohen Grocery Co.*, 255 U. S. 81, by Mr. Chief Justice White, at pp. 88-89;

United States v. New River Collieries Co., 262 U. S. 341, by Mr. Justice Butler, at p. 343; *Highland v. Russell Car, etc., Co.*, 279 U. S. 253, by the same learned judge, at pp. 261-262; *Home Building & Loan Ass'n v. Blaisdell*, 290 U. S. 398, by Mr. Chief Justice Hughes, at p. 426; concurring opinion of Mr. Justice Murphy in *Hirabayashi v. United States*, 320 U. S. 81, at p. 110.

But if there is another power than the war power under which an attempt may be made to justify the Royalty Adjustment Act, the Act must nevertheless meet the requirements of the Fifth Amendment. All the powers of Congress are subject to its restrictions. *Monongahela Navigation Co. v. United States*, 148 U. S. 312, by Mr. Justice Brewer, at p. 336; *United States v. Lynah*, 188 U. S. 445, by the same learned judge, at p. 465; *United States v. Cress*, 243 U. S. 316, by Mr. Justice Pitney, at p. 320.

We submit that the Fifth Amendment invalidates the Royalty Adjustment Act and the orders of the War and Navy Departments made thereunder, because (a) they take private property without just compensation and (b) they deprive persons of property without due process of law.

(A) THE ROYALTY ADJUSTMENT ACT AND THE ORDERS MADE THEREUNDER TAKE PRIVATE PROPERTY WITHOUT JUST COMPENSATION.

The rights of a patentee are property. The fact that they are derived from an act of the Government does not deprive them of any of the protection from further acts of the Government to which any other prop-

erty is entitled. The right to exclude others from the use of an invention under a patent from the United States is a right of the same kind as a right to exclude others from the use of land held under a patent from a State or from the United States. The law has been settled to this effect for more than six decades. Mr. Justice Bradley, delivering the opinion of the Court in *James v. Campbell,* 104 U. S. 356, said (pp. 357-358):

> "That the government of the United States when it grants letters-patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser, we have no doubt. The Constitution gives to Congress power 'to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries,' which could not be effected if the government had a reserved right to publish such writings or to use such inventions without the consent of the owner. Many inventions relate to subjects which can only be properly used by the government, such as explosive shells, rams, and submarine batteries to be attached to armed vessels. If it could use such inventions without compensation, the inventors could get no return at all for their discoveries and experiments. It has been the general practice, when inventions have been made which are desirable for government use, either for the government to purchase them from the inventors, and use them as secrets of the

proper department; or, if a patent is granted, to pay the patentee a fair compensation for their use. The United States has no such prerogative as that which is claimed by the sovereigns of England, by which it can reserve to itself, either expressly or by implication, a superior dominion and use in that which it grants by letters-patent to those who entitle themselves to such grants.* The government of the United States, as well as the citizen, is subject to the Constitution; and when it grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor."

To a like effect see *United States v. Burns*, 12 Wall. 246, by Mr. Justice Field, at p. 252; *Cammeyer v. Newton*, 94 U. S. 225, by Mr. Justice Clifford, at pp. 234-235; *Hollister v. Benedict & Burnham Mfg. Co.*, 113 U. S. 59, by Mr. Justice Matthews, at p. 67; *United States v. Palmer*, 128 U. S. 262, by Mr. Justice Bradley, at p. 271; *Solomons v. United States*, 137 U. S. 342, by Mr. Justice Brewer, at p. 346; *Gill v. United States*, 160 U. S. 426, by Mr. Justice Brown, at p. 435; *Belknap v. Schild*, 161 U. S. 10, by Mr. Justice Gray, at p. 16; *McCormick Harvesting Machine Co. v. Aultman*, 169 U. S. 606, by Mr. Justice Brown, at pp. 608-609; *Wm. Cramp & Sons Ship & Engine Bldg. Co. v. International Curtis Marine Turbine Co.*, 246 U. S. 28, by Mr. Chief Justice White, at pp. 39-40; *United States v. Dubilier Condenser Corp.*, 289 U. S. 178, by Mr. Justice Roberts, at p. 187; *Hartford-Empire Co. v. United States*, 65 S. Ct. 373, in which the

* The Crown has surrendered this prerogative: *9 & 10 Geo. V*, c. 80, § 8.

Court at the present term said by Mr. Justice Roberts (65 S. Ct. 387):

> "That a patent is property, protected against appropriation both by individuals and government, has long been settled."

It is obvious that contract rights of licensors to royalties have been taken by the orders of the War Department and Navy Department under the Royalty Adjustment Act. In the case of the petitioner all such royalties under its contract with The Timken-Detroit Axle Company, in the case of Coffman the greater part of such royalties under his contract with Federal Laboratories, Inc., are to be received by the United States and not by the persons entitled thereto under the license contracts. There is a forced assignment to or appropriation by the United States of contract rights to receive money.

Contract rights are property protected by the Fifth Amendment. This Court said in *Lynch v. United States*, 292 U. S. 571, by Mr. Justice Brandeis (p. 579):

> "Valid contracts are property, whether the obligor be a private individual, a municipality, a State or the United States. Rights against the United States arising out of a contract with it are protected by the Fifth Amendment."

See also *Long Island Water Supply Co. v. Brooklyn*, 166 U. S. 685, by Mr. Justice Brewer, at p. 690; *Brooks-Scanlon Corp. v. United States*, 265 U. S. 106, by Mr. Justice Butler; *Russian Volunteer Fleet v. United States*, 282 U. S. 481, by Mr. Chief Justice Hughes.

The purpose and effect of the Royalty Adjustment Act is to adjust, *i. e.*, to reduce, royalties for the use of

inventions when they are used for the United States by licensees, regardless of contract rights thereto, where the rates or amounts are believed to be unreasonable or excessive by the head of a department or agency of the Government or his delegate. When such a department head or delegate believes that the amounts of royalties are unreasonable or excessive he is to take into account in adjusting the royalties not the terms of the contract but "the conditions of wartime production" (Sec. 1). The licensor is permitted to sue the United States not for the value of the contract right taken from him, but for "such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation * * *, taking into account the conditions of wartime production" (Sec. 2); and the United States may defend the suit by pleading defenses that might be pleaded by a defendant in an action for infringement, which, as we shall show, a licensee could not do. In short, the statute is designed, and if valid is effective, to turn over to the United States a part or all of the royalties to which licensors are entitled under their contracts.

But under all the authorities, when a contract right is taken from a person for the benefit of the Treasury of the United States he is entitled to the full and perfect equivalent in money of the property so taken. The full and perfect equivalent in money is of course the amount which could be obtained for an assignment of the contract right by an owner willing to sell it from a purchaser willing to buy it. The right to receive money from a solvent debtor is worth the amount of money to be received under it. The Royalty Adjustment Act, providing for the payment of a less amount, fails to satisfy

the requirement of just compensation imposed by the Fifth Amendment. The United States cannot constitutionally take any part of the amount to which a person is entitled under his contract and not pay for it.

The principle upon which we rely was laid down by this Court as long ago as 1878, when, in *Boom Co. v. Patterson,* 98 U. S. 403, the Court said by Mr. Justice Field (pp. 407-408):

> "In determining the value of land appropriated for public purposes, the same considerations are to be regarded as in a sale of property between private parties. The inquiry in such cases must be what is the property worth in the market, viewed not merely with reference to the uses to which it is at the time applied, but with reference to the uses to which it is plainly adapted; that is to say, what is it worth from its availability for valuable uses."

The leading case under the just compensation clause is doubtless *Monongahela Navigation Co. v. United States,* 148 U. S. 312. An Act of Congress authorized the Secretary of War to institute proceedings for the condemnation of a lock and dam of the appellant. The court found that the value of the lock and dam was $209,000, not considering the franchise of the appellant to collect tolls, and decreed that that sum be paid for the property condemned. On appeal this Court held that just compensation required payment of the value of the franchise to take tolls as well as the value of the tangible property and that the assertion by Congress of its purpose to take the property did not destroy the State franchise, and remanded the case for a new trial. Mr. Justice Brewer, delivering the opinion of the Court, said (pp. 325-326):

"The language used in the Fifth Amendment in respect to this matter is happily chosen. The entire amendment is a series of negations, denials of right or power in the government, the last, the one in point here, being, 'Nor shall private property be taken for public use without just compensation.' The noun 'compensation,' standing by itself, carries the idea of an equivalent. Thus we speak of damages by way of compensation, or compensatory damages, as distinguished from punitive or exemplary damages, the former being the equivalent for the injury done, and the latter imposed by way of punishment. So that if the adjective 'just' had been omitted, and the provision was simply that property should not be taken without compensation, the natural import of the language would be that the compensation should be the equivalent of the property. And this is made emphatic by the adjective 'just.' There can, in view of the combination of those two words, be no doubt that the compensation must be a full and perfect equivalent for the property taken."

And again (p. 327):

"By this legislation, Congress seems to have assumed the right to determine what shall be the measure of compensation. But this is a judicial and not a legislative question. The legislature may determine what private property is needed for public purposes—that is a question of a political and legislative character; but when the taking has been ordered, then the question of compensation is judicial. It does not rest with the public, taking the property, through Congress or the legislature, its

representative, to say what compensation shall be paid, or even what shall be the rule of compensation. The Constitution has declared that just compensation shall be paid, and the ascertainment of that is a judicial inquiry. In *Charles River Bridge v. Warren Bridge,* 11 Pet. 420, 571, Mr. Justice McLean in his opinion, referring to a provision for compensation found in the charter of the Warren bridge, uses this language: 'They (the legislature) provide that the new company shall pay annually to the college, in behalf of the old one, one hundred pounds. By this provision, it appears that the legislature has undertaken to do what a jury of the country only could constitutionally do: assess the amount of compensation to which the complainants are entitled.' "

The language of the Court with reference to the right to take tolls is peculiarly applicable to the case at bar and the case of our client in view of the fact that the orders here in question give to the Treasurer of the United States royalties which the licensees are required by their contracts to pay to the petitioner and to Coffman. It is as follows (pp. 337-338):

"And here it may be noticed that, after taking this property, the government will have the right to exact the same tolls the Navigation Company has been receiving. It would seem strange that if by asserting its right to take the property, the government could strip it largely of its value, destroying all that value which comes from the receipt of tolls, and, having taken the property at this reduced valuation, immediately possess and enjoy all the profits from the collection of the same tolls. In

other words, by the contention this element of value exists before and after the taking, and disappears only during the very moment and process of taking. Surely, reasoning which leads to such a result must have some vice, at least the vice of injustice."

And again (p. 343):

"It is also suggested that the government does not take this franchise; that it does not need any authority from the State for the exaction of tolls, if it desires to exact them; that it only appropriates the tangible property, and then either makes the use of it free to all, or exacts such tolls as it sees fit, or transfers the property to a new corporation of its own creation, with such a franchise to take tolls as it chooses to give. But this franchise goes with the property; and the Navigation Company, which owned it, is deprived of it. The government takes it away from the company, whatever use it may make of it; and the question of just compensation is not determined by the value to the government which takes, but the value to the individual from whom the property is taken; and when by the taking of the tangible property the owner is actually deprived of the franchise to collect tolls, just compensation requires payment, not merely of the value of the tangible property itself, but also of that of the franchise of which he is deprived."

So just compensation requires payment of the value of the royalties of which licensors have been deprived. If this Court had decided no other case than the *Monongahela Navigation Company* case the fallacy of the defense of the Royalty Adjustment Act would be amply

demonstrated. But there are many more cases to reinforce the conclusion.

In *United States v. Rogers,* 255 U. S. 163, it was argued that there was error in awarding the owners of appropriated lands interest on their value from the time of actual taking until compensation was made, because the United States cannot, in the absence of a statute to that end, be subjected to the payment of interest. The Court, however, held, in an opinion by Mr. Justice Day, that the allowance of just compensation involved the giving of interest.

Seaboard Air Line Ry. Co. v. United States, 261 U. S. 299, is to a like effect. It arose under a war statute. The Court said by Mr. Justice Butler (p. 304):

> "Section 10 of the Lever Act authorizes the taking of property for the public use on payment of just compensation. There is no provision in respect of interest. Just compensation is provided for by the Constitution and the right to it cannot be taken away by statute. Its ascertainment is a judicial function. *Monongahela Navigation Co. v. United States,* 148 U. S. 312, 327.
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> "The compensation to which the owner is entitled is the full and perfect equivalent of the property taken. *Monongahela Navigation Co. v. United States,* 148 U. S. 312, 327. It rests on equitable principles and it means substantially that the owner shall be put in as good position pecuniarily as he would have been if his property had not been taken. *United States v. Rogers* (C.C.A., Eighth Circuit), 257 Fed. 397, 400. He is entitled to the damages inflicted by the taking. *Northern Pacific Ry. Co. v.*

North American Telegraph Co. (C.C.A., Eighth Circuit), 230 Fed. 347, 352, and cases there cited."

If a licensor is to be put in as good condition pecuniarily as he would have been in if his property had not been taken, he must have the full royalties to which his contract entitles him.

Omnia Commercial Co. v. United States, 261 U. S. 502, has been relied on by the Government as supporting the Royalty Adjustment Act and the orders made thereunder. In that case the appellant, by contract, acquired the right to purchase steel plate from a steel company at a price under the market. The Government requisitioned the company's entire production of steel plate. Appellant brought an action in the Court of Claims, alleging that the performance of the contract had been rendered unlawful and impossible and the effect was to take for the public use appellant's right to the steel plate expected to be produced by the steel company. To this petition a demurrer was sustained and the judgment was affirmed by this Court. The Court in its opinion clearly differentiated the case from the case at bar and the case of our client, where the Government has taken not the subject matter of the contract but the contract right to be paid therefor. What is taken here is not something whose taking prevents performance of a contract, but a right under the contract. The Court said by Mr. Justice Sutherland (pp. 510-511):

"If, under any power, a contract or other property is *taken* for public use, the Government is liable; but if injured or destroyed by lawful action, without a taking, the Government is not liable. What was here requisitioned was the future product of the Steel Company, and, since this product in the

absence of governmental interference would have been delivered in fulfillment of the contract, the contention seems to be that the contract was so far identified with it that the taking of the former, *ipso facto,* took the latter. This, however, is to confound the contract with its subject-matter. The essence of every executory contract is the obligation which the law imposes upon the parties to perform it. 'It (the contract) may be defined to be a transaction between two or more persons, in which each party comes under an obligation to the other, and each reciprocally acquires a right to whatever is promised by the other.' *Dartmouth College v. Woodward,* 4 Wheat. 629, 656. Plainly, here there was no acquisition of the obligation or the right to enforce it. If the Steel Company had failed to comply with the requisition, what would have been the remedy? Not enforcement of the contract but enforcement of the statute. If the Government had failed to pay for what it got what would have been the right of the Steel Company? Not to the price fixed by the contract but to the just compensation guaranteed by the Constitution.

"In exercising the power to requisition, the Government dealt only with the Steel Company, which company thereupon became liable to deliver its product to the Government, by virtue of the statute and in response to the order. As a result of this lawful governmental action the performance of the contract was rendered impossible. It was not appropriated but ended."

Brooks-Scanlon Corp. v. United States, 265 U. S. 106, in our opinion, squarely rules the question under

the just compensation clause in the case at bar. The Emergency Fleet Corporation served on a shipbuilder its order requisitioning all of the ships under construction in the builder's shipyard and the materials necessary for their completion. The order required the builder to complete the ships. It stated that compensation would be paid for "ships, materials and contracts requisitioned." The Government contended that it had not requisitioned the claimant's contract by which the shipbuilder had agreed to construct one of the ships requisitioned, but the Court held that this contract and the claimant's rights and interests thereunder were expropriated, quoting with approval the dissenting opinion of the Chief Justice in the Court of Claims (p. 121):

> "If the plaintiff had voluntarily assigned its contract with the builder to the Government, and the latter had expressly assumed the unfulfilled obligations and later received the completed vessel, it would not more effectively have acquired plaintiff's contract, its rights, and obligations than actually resulted from what was done in this case. The Government requisitioned the incomplete vessel with the purpose of requiring the completion in accordance with the existing contract; it did require the carrying out of that contract (with slight modification); it took plaintiff's right to have the vessel; it received the vessel and appropriated plaintiff's partial payments thereon to its own use and benefit."

As to the just compensation, the Court, speaking by Mr. Justice Butler, said (pp. 123-124, 125-126):

> "It is the sum which, considering all the circumstances—uncertainties of the war and the rest—probably could have been obtained for an assign-

ment of the contract and claimant's rights thereunder; that is, the sum that would in all probability result from fair negotiations between an owner who is willing to sell and a purchaser who desires to buy.

* * * * * * *

"* * * Determination of just compensation is to be based on the fact that claimant's contract and its rights and interest thereunder were expropriated, and that it is entitled to have their value at the time of the taking. The value of such ships at the time of requisition, and the then probable value at the time fixed for delivery, the contract price, the payments made and to be made, the time to elapse before completion and delivery, the possibility that by reason of the Government's action in control of materials, etc., the contractor might not be able to complete the ship at the date fixed for performance, the loss of use of money to be sustained, the amount of other expenditures to be made between the time of requisition and delivery, together with other pertinent facts, are to be taken into account and given proper weight to determine the amount claimant lost by the taking (*Minnesota Rate Cases, supra,* 451; *United States v. Chandler-Dunbar Co.,* 229 U. S. 53, 76; *Boston Chamber of Commerce v. Boston,* 217 U. S. 189, 195; *Monongahela Navigation Co. v. United States, supra,* 343), that is, the sum which will put it in as good a position pecuniarily as it would have been in if its property had not been taken. *United States v. New River Collieries Co., supra,* 343; *Seaboard Air Line Ry. Co. v. United States, supra,* 305."

In *Russian Volunteer Fleet v. United States*, 282 U. S. 481, the Court, in an opinion by Mr. Chief Justice Hughes, made a similar ruling in another suit to recover just compensation for the requisitioning by the Emergency Fleet Corporation of contracts for the construction of two vessels.

Jacobs v. United States, 290 U. S. 13, is another case in which the judgment of the court below was reversed for failure to allow interest in a suit under the Tucker Act. The Court said, in an opinion by Mr. Chief Justice Hughes (pp. 16-17):

> "The amount recoverable was just compensation, not inadequate compensation. The concept of just compensation is comprehensive and includes all elements, 'and no specific command to include interest is necessary when interest or its equivalent is a part of such compensation.' The owner is not limited to the value of the property at the time of the taking; 'he is entitled to such addition as will produce the full equivalent of that value paid contemporaneously with the taking.' Interest at a proper rate 'is a good measure by which to ascertain the amount so to be added.' *Seaboard Air Line R. Co. v. United States*, 261 U. S. 299, 306. That suit was brought by the owner under § 10 of the Lever Act, which, in authorizing the President to requisition property for public use and to pay just compensation, said nothing as to interest. But the Court held that the right to just compensation could not be taken away by statute or be qualified by the omission of a provision for interest where such an allowance was appropriate in order to make the compensation adequate."

In *United States v. Miller*, 317 U. S. 369, the Court, in a unanimous opinion by Mr. Justice Roberts, summed up the effect of the cases as follows (pp. 373-374):

> "The Fifth Amendment of the Constitution provides that private property shall not be taken for public use without just compensation. Such compensation means the full and perfect equivalent in money of the property taken. The owner is to be put in as good position pecuniarily as he would have occupied if his property had not been taken.
>
> "It is conceivable that an owner's indemnity should be measured in various ways depending upon the circumstances of each case and that no general formula should be used for the purpose. In an effort, however, to find some practical standard, the courts early adopted, and have retained, the concept of market value. The owner has been said to be entitled to the 'value,' the 'market value,' and the 'fair market value' of what is taken. The term 'fair' hardly adds anything to the phrase 'market value,' which denotes what 'it fairly may be believed that a purchaser in fair market conditions would have given,' or, more concisely, 'market value fairly determined.'"

The latest case on the subject of just compensation is *United States v. General Motors Corp.*, 65 S. Ct. 357, in which the Court said by Mr. Justice Roberts (pp. 359-360):

> "The correctness of the decision of the court below depends upon the scope and meaning of the constitutional provision: 'nor shall private property be taken for public use, without just compensation,' which conditions the otherwise unrestrained power

of the sovereign to expropriate, without compensation, whatever it needs.

"The critical terms are 'property,' 'taken' and 'just compensation.' It is conceivable that the first was used in its vulgar and untechnical sense of the physical thing with respect to which the citizen exercises rights recognized by law. On the other hand, it may have been employed in a more accurate sense to denote the group of rights inhering in the citizen's relation to the physical thing, as the right to possess, use and dispose of it. In point of fact, the construction given the phrase has been the latter. *When the sovereign exercises the power of eminent domain it substitutes itself in relation to the physical thing in question in place of him who formerly bore the relation to that thing, which we denominate ownership.* In other words, it deals with what lawyers term the individual's 'interest' in the thing in question. That interest may comprise the group of rights for which the shorthand term is 'a fee simple' or it may be the interest known as an 'estate or tenancy for years,' as in the present instance. *The constitutional provision is addressed to every sort of interest the citizen may possess.*

"In its primary meaning, the term 'taken' would seem to signify something more than destruction, for it might well be claimed that one does not take what he destroys. But the construction of the phrase has not been so narrow. The courts have held that *the deprivation of the former owner* rather than the accretion of a right or interest to the sovereign constitutes the taking. Governmental action short of acquistion of title or occupancy has been held, if its effects are so complete as *to deprive the*

owner of all or most of his interest in the subject matter, to amount to a taking.

"But it is to be observed that whether the sovereign substitutes itself as occupant in place of the former owner, or destroys all his existing rights in the subject matter, the Fifth Amendment concerns itself solely with the 'property,' i.e., with the owner's relation as such to the physical thing and not with other collateral interests which may be incident to his ownership.

"In the light of these principles it has been held that the compensation to be paid is the value of the interest taken. Only in the sense that he is to receive such value is it true that the owner must be put in as good position pecuniarily as if his property had not been taken. In the ordinary case, for want of a better standard, market value, so-called, is the criterion of that value. In some cases this criterion cannot be used either because the interest condemned has no market value or because, in the circumstances, market value furnishes an inappropriate measure of actual value." (Italics ours.)

No dissent from the propositions so laid down is expressed in the concurring opinion of Mr. Justice Douglas (p. 362). That opinion points out that the United States was occupying a part of leased premises and paying less therefor by the square foot than the lessee was bound to pay to the landlord. If just compensation requires that the lessee be recompensed to the extent of the increase of his expense, we submit that it requires also that the person whose contract right is taken be recompensed to the extent of the reduction of

his income. Expense and income are commensurable items.

If "every sort of interest the citizen may possess" is protected by the constitutional provision, it is quite clear that the interest of a licensor in his contract right to royalties is so protected. Governmental action depriving him of all or most of this interest requires that compensation be paid, and *a fortiori*, if the Government takes *title* to a part or all of this interest, it must pay therefor. The market value of the contract right is what must be paid; and the Royalty Adjustment Act is unconstitutional because its purpose and effect is to give half a loaf or none instead of the monetary value of the contract right which it takes for the benefit of the United States.

The cases from which we have quoted form only a part of a large body of authority to a like effect. See, *e. g., United States v. Chandler-Dunbar Co.*, 229 U. S. 53; *United States v. New River Collieries Co.*, 262 U. S. 341; *Davis v. Newton Coal Co.*, 267 U. S. 292; *Liggett & Myers Tobacco Co. v. United States*, 274 U. S. 215; *Phelps v. United States*, 274 U. S. 341; *Richmond Screw Anchor Co. v. United States*, 275 U. S. 331; *Waite v. United States*, 282 U. S. 508; *Olson v. United States*, 292 U. S. 246; *Great Northern Ry. Co. v. Weeks*, 297 U. S. 135; *Baltimore & Ohio R. R. Co. v. United States*, 298 U. S. 349, 365; *United States v. Klamath & Moadoc Tribes*, 304 U. S. 119; concurring opinion of Justices Black, Douglas and Murphy in *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U. S. 575, at p. 603.

In view of the great body of authority requiring that the full and perfect equivalent in money of the

property taken for public use must be provided under the Fifth Amendment, so as to put the owner in as good position pecuniarily as he would have occupied if his property had not been taken, how can the Royalty Adjustment Act be justified?

The court below held the Act constitutional on the theory that (144 F. (2d) 714, at p. 719):

> "The provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation. Crozier v. Fried Krupp Aktiengesellschaft, 1911, 224 U. S. 290, 32 S. Ct. 488, 56 L. Ed. 771; Identification Devices v. United States, 1941, 74 App. D. C. 263, 121 F. 2d 895, certiorari denied 1941, 314 U. S. 615, 62 S. Ct. 63, 86 L. Ed. 495, 1942, 314 U. S. 587, 62 S. Ct. 477, 86 L. Ed. 474, rehearing denied 1941, 314 U. S. 710, 714, 62 S. Ct. 174, 357, 86 L. Ed. 566, 569, 1942, 315 U. S. 779, 62 S. Ct. 485, 86 L. Ed. 1187; Pierce v. Submarine Signal Co., D. C. Mass., 1939, 25 F. Supp. 862."

It is unnecessary to discuss each of the cases cited by the court below, since the two cases in the lower courts add nothing to the decision of this Court in *Crozier v. Fried. Krupp Aktiengesellschaft*, 224 U. S. 290. In that case the Court held that a patentee had no right to enjoin an officer of the United States from using devices employing the inventions covered by his letters patent, because the Act of June 25, 1910, 36 Stat. 851, 35 U.S.C. § 68, provided that "whenever an invention described in and covered by a patent of the United States 'shall hereafter be used by the United States without license of the owner thereof or lawful right to use the same, such

owner may recover reasonable compensation for such use by suit in the Court of Claims'" (p. 304). It is to be noted, however, that that Act provided for the recovery of "reasonable compensation" and, as amended by the Act of July 1, 1918, provides "for the recovery of his reasonable and entire compensation for such use and manufacture." How different is this language, calling for the recovery of reasonable and entire compensation, from that employed in the Royalty Adjustment Act, which, in lieu of the royalty contracted for, provides only for "fair and just compensation to the licensor * * *, taking into account the conditions of wartime production." By this Act the licensor is to be given the amount which might be just compensation if no contract right of his were taken, but the United States merely used an invention without the right to do so and Congress waived the immunity of the United States from suit for infringement. But when the contract right of a patentee to receive royalties *is* taken, he is entitled to the value of that right, under all the cases decided in the four decades which have elapsed since the decision in *Monongahela Navigation Co. v. United States.*

The court below (at 144 F. (2d) 716) refers to the fact that under the Act of 1910, as amended, when a patented invention is used or manufactured by or for the United States without license, the patent could be infringed "free from threat or injunction * * *, leaving the amount to be paid to the patentee to be adjusted by suit in the Court of Claims." But in the cases arising under the Royalty Adjustment Act the United States has not chosen to infringe the patents. It has not used the inventions at all. It has chosen to contract with

the licensees, and in so doing it has chosen to say that the payment for the use of the inventions by them shall be made in whole or in part to it and not wholly to the persons entitled to the payment under the license contracts. We are dealing here with the taking of contract rights.

Let it not be supposed that the distinction made in the preceding paragraph is one without a difference. An analogy derived from two supposititious statutes will make the difference clear. A lawyer, like a patentee, may have something of use to the United States in the emergency, not property, like the right of the patentee, but the ability to perform services. Congress could authorize him to be drafted to perform the services for the Army or the Navy. The drafting of the lawyer, like the appropriating of the use of the invention, would clearly be legal, and, moreover, the lawyer would not have to be compensated, for no *property* would be taken for public use. But suppose that the United States determines that the lawyer, by his services to his clients, for which he has contracts entitling him to compensation, is doing his part toward winning the war without being drafted, and Congress authorizes the head of a department or agency to determine what compensation would be fair and just for his services, taking into account wartime conditions, and to order that the excess of his contractual compensation over that so determined shall be paid to the United States. If the lawyer's contracts for such compensation were made in 1932, as in Coffman's case, or in 1938, as in the case at bar, the tax upon him would parallel the exactions under the Royalty Adjustment Act; and we submit that the taking of his compensation in excess of $50,000 per annum (or,

let us say, $10,000 per annum, since a lawyer's services are hardly likely to be valued so highly as an inventor's) would deprive him of property without due process of law and take private property without just compensation. It would be no argument to say that he might have been drafted to serve without compensation, because the just compensation clause *does not* provide compensation for services, but does provide compensation for property.

In the opinion of the court below a number of cases are cited which refer to the exercise of the war power, the commerce power, or other regulatory power of Congress over contracts, and the conclusion is stated (144 F. (2d) 719):

> "If individual contract rights may be interfered with in pursuance of regulatory power exercised on behalf of the general public it is even clearer that such rights are subordinate to the public interest when compensation is given the individual for such interference."

We do not imply that the learned judge supposes that the contract rights may be appropriated without just compensation. The argument, however, on behalf of the Government in the District Court in the Coffman case seemed to rely on these cases of regulation reducing the value of contract rights as if they justified without more the orders made under the Royalty Adjustment Act. This of course is incorrect, as is shown by one of the cases cited by the court below and also by the Government in its brief in the Coffman case: *Louisville and Nashville R. R. Co. v. Mottley*, 219 U. S. 467. In that case a railroad company, in consideration of a release from a claim for damages for injuries, had agreed to issue free

passes to the injured person annually during his life. The Court held that after the passage of the Interstate Commerce Act the agreement was unenforcible. In so holding, however, it clearly differentiated between an act regulating commerce and an act taking private property for public use. Mr. Justice Harlan, who delivered the opinion of the Court, said (p. 484):

> "It is not determinative of the present question that the commerce act as now construed will render the contract of no value for the purposes for which it was made. In *Knox v. Lee*, 12 Wall. 457, above cited, the court, referring to the Fifth Amendment, which forbids the taking of private property for public use without just compensation or due process of law, said: 'That provision has always been understood as referring only to a direct appropriation, and not to consequential injuries resulting from the exercise of lawful power. It has never been supposed to have any bearing upon or to inhibit laws that indirectly work harm and loss to individuals. A new tariff, an embargo, a draft, or a war, may inevitably bring upon individuals great losses; may, indeed, render valuable property almost valueless. They may destroy the worth of contracts.'"

The distinction between a taking by eminent domain and a rate reduction is brought out in the concurring opinion of Justices Black, Douglas and Murphy in *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U. S. 575, at p. 603; and the distinction between such a taking and the fixing of maximum rents is brought out in the opinion of the Court by Mr. Justice Douglas in *Bowles v. Willingham*, 321 U. S. 503, at p. 517:

"Moreover, there would be no constitutional objection if Congress as a war emergency measure had itself fixed the maximum rents in these areas. We are not dealing here with a situation which involves a 'taking' of property. *Wilson v. Brown, supra.* By § 4 (d) of the Act it is provided that 'nothing in this Act shall be construed to require any person to sell any commodity or to offer any accommodations for rent.' There is no requirement that the apartments in question be used for purposes which bring them under the Act. Of course, price control, the same as other forms of regulation, may reduce the value of the property regulated."

It is unnecessary, in view of the express provision in the Constitution for just compensation for the taking of private property, to argue that such compensation must be made for the taking of a contract right, even though the worth of the contract might have been destroyed by legislation not involving a taking without giving compensation. It would be easy, however, if it were necessary to justify the distinction which the framers of the Constitution made between legislation authorizing the taking of property and legislation merely regulating the use of property. The Government, as *parens patriae,* passing on the question whether the interest of the people calls for a regulation even at the expense of the invalidating of contract rights, is not subject to the temptation to which it would be subject if it could take for its own benefit contract rights without paying the full and perfect equivalent in money of the rights so taken. In the one case the Government is disinterested; in the other case it is an interested party.

Comment may be made on the fact that both the Act of 1910 and the Royalty Adjustment Act allow the United States the defenses that might be pleaded in an action for infringement or otherwise. By the Royalty Adjustment Order issued to the petitioner and its licensee the United States ordered that the latter pay no royalties to the petitioner. Obviously the United States proposes to dispute the validity of the patent if the licensor sues for compensation in the Court of Claims. Such a defense is appropriate in case the Government or a contractor for it uses an invention without license which it claims to be unpatentable. Such a defense is inappropriate when the United States takes, as in the case at bar, the contract right of the licensor to receive royalties. A licensee may not dispute the validity of the patent in a suit for royalties. *Walker on Patents,* Deller's ed., vol. 2, § 383; *Kinsman v. Parkhurst,* 18 How. 289; *Eureka Co. v. Bailey Co.,* 11 Wall. 488; *United States v. Harvey Steel Co.,* 196 U. S. 310. To award just compensation for the taking of a contract right to royalties the United States must pay the sum which "probably could have been obtained for an assignment of the contract" (*Brooks-Scanlon Corp. v. United States,* at 265 U. S. 123-124), and parties negotiating for such an assignment, of course, would take into account the estoppel of the licensee from disputing the validity of the patent.

Richmond Screw Anchor Co. v. United States, 275 U. S. 331, was a suit brought under the Act of 1910, as amended in 1918, to recover from the United States for the use of a patented article unauthorized by the patent owner. The plaintiff was the assignee of the patent and the claims for infringement. The Court of Claims dis-

missed the petition for the reason that the assignment of the claims for infringement was void under the section of the Revised Statutes forbidding assignment of claims against the United States. This Court, holding that a decision that the statute avoided the assignment would raise a serious question as to the constitutionality of the Act of 1918 under the Fifth Amendment to the Constitution, reversed the judgment, saying by Mr. Chief Justice Taft (p. 345):

> "We must presume that Congress in the passage of the Act of 1918 intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. It was taking away his assignable claims against the contractor for the latter's infringement of his patent. The assignability of such claims was an important element in their value and a matter to be taken into account in providing for their just equivalent."

To this we may add that the fact that the claim of a patentee against his licensee is not subject to the defense of invalidity of the patent is an important element in its value and a matter to be taken into account in providing for its just equivalent. The Royalty Adjustment Act, in prohibiting its being taken into account, violates the just compensation clause of the Fifth Amendment.

Many Acts for the taking of private property for public use passed during the last war and during this war were cited by the Government in its brief in the District Court in the Coffman case. We have examined all of them. In none of them except the Royalty Adjustment Act is the compensation limited by requiring an executive officer or a court to give less than the full

and perfect equivalent in money of the property taken. Most of them call merely for the payment of "just compensation," recognizing that what is just compensation is a judicial, not a legislative, question. The provision for compensation in the general Act for requisitioning the use of military or naval equipment in this war is entirely different from that of the Royalty Adjustment Act. It is the Act of October 16, 1941, c. 445, Sec. 1, 55 Stat. 742, amended on March 27, 1942, June 30, 1943, and June 28, 1944, 50 U.S.C. § 721. It says that each determination of the amount of the fair and just compensation to be paid for any property requisitioned "shall be made as of the time it is requisitioned or returned, as the case may be, in accordance with the provision for just compensation in the fifth amendment to the Constitution of the United States." It provides for suit in the Court of Claims for an additional amount which, when added to the amount paid, the person entitled "considers to be fair and just compensation for such property." No limitation is placed on the amount recoverable in the Court of Claims. We submit that the limitations in the Royalty Adjustment Act show that the intent of Congress was to refuse to pay the value of the royalties taken; if payment of that value were allowed, the royalties contracted for would not be "adjusted" at all. This refusal of Congress is a denial of just compensation.

(B) THE ROYALTY ADJUSTMENT ACT AND THE ORDERS MADE THEREUNDER DEPRIVE PERSONS OF PROPERTY WITHOUT DUE PROCESS OF LAW.

We submit further that, even if the Royalty Adjustment Act provided just compensation, the taking of contract rights to receive royalties cannot be justified as an exercise of the power of eminent domain.

The power is defined by a learned writer on the subject as follows:

> "Eminent domain is the right or power of a sovereign State to appropriate private property to particular uses, for the purpose of promoting the general welfare. It embraces all cases where, by the authority of the State and for the public good, the property of the individual is taken without his consent, for the purpose of being devoted to some particular use, either by the State itself or by a corporation, public or private, or a private citizen." (*Lewis, Eminent Domain,* 3d ed., § 1.)

The rights of the licensors to receive royalties specified in the license agreements are taken by the War Department and Navy Department orders not "for the purpose of being devoted to some particular use" but only for the purpose of improving the financial condition of the United States. The orders call for the payment to the Treasurer of the United States, in the case at bar of all royalties, and in Coffman's case of all royalties in excess of $50,000 in each calendar year, in respect of articles sold for or to the two Departments.

We submit that money or the right to receive money is not such property as may be lawfully taken by emi-

nent domain. One of the greatest American jurists notes the distinction for this purpose between money and property which is to be used by the Government in kind:

> "Every species of property which the public needs may require and which government cannot lawfully appropriate under any other right, is subject to be seized and appropriated under the right of eminent domain. Lands for the public ways; timber, stone, and gravel with which to make or improve the public ways; buildings standing in the way of contemplated improvements, or which for any other reason it becomes necessary to take, remove, or destroy for the public good; streams of water; corporate franchises; and generally, it may be said, legal and equitable rights of every description are liable to be thus appropriated. From this statement, however, must be excepted money, or that which in ordinary use passes as such, and which the government may reach by taxation, and also rights in action, which can only be available when made to produce money; neither of which can it be needful to take under this power." (*Cooley's Constitutional Limitations,* 8th ed., vol. 2, 1113.)

See also the footnote to this paragraph (p. 1118), which reads in part as follows:

> "Property of individuals cannot be appropriated by the State under this power for the mere purpose of adding to the revenues of the State. Thus it has been held in Ohio, that in appropriating the water of streams for the purposes of a canal, more could not be taken than was needed for that object with a view to raising a revenue by selling or leasing it. * * *

> "Taking money under the right of eminent domain, when it must be compensated in money afterwards, could be nothing more or less than a forced loan, only to be justified as a last resort in a time of extreme peril, where neither the credit of the government nor the power of taxation could be made available. It is impossible to lay down rules for such a case, except such as the law of overruling necessity, which for the time being sets aside all the rules and protections of private right, shall then prescribe."

It will hardly be contended by the Government in this case that the taking of the money due to the petitioner is "justified as a last resort in a time of extreme peril, where neither the credit of the government nor the power of taxation could be made available."

A careful study of all the cases on eminent domain disclosed by our research indicates that the taking of the right to receive money under the Royalty Adjustment Act has no precedent in our history. A chronological review of the opinions in which the matter has been discussed may be not without interest.

In *Buckingham v. Smith,* 10 Ohio 288 (1840), where canal commissioners had constructed a feeder to a canal, to be used for the purpose of taking more water out of a river than was required for canal navigation, the court said by Woodward, J. (pp. 296-297):

> "The State, notwithstanding the sovereignty of her character, can take only sufficient water, from *private streams,* for the purposes of the canal. So far the law authorizes the commissioners to invade private right, as to take what may be necessary for canal navigation, and to this extent, authority is

conferred by the constitution, provided, a compensation be paid in money to the owner. The principle is founded on the superior claims of a whole community, over an individual citizen; but then, in those cases, only, where private property is wanted for *public use*, or demanded by the *public welfare*. We know of no instances in which it has, or can be taken, even by State authority, for the mere purpose of raising a revenue by resale, or otherwise; and the exercise of such a power would be utterly destructive of individual right, and break down all the distinctions between *meum et tuum*, and annihilate them forever, at the pleasure of the State."

In *People v. Mayor, &c. of Brooklyn*, 4 N. Y. 419 (1851), the court laid down what has since been regarded as a classic statement of the distinction between taxation and the exercise of eminent domain, saying by Ruggles, J. (pp. 424-425):

"Taxation exacts money, or services, from individuals, as and for their respective shares of contribution to any public burthen.

"Private property taken for public use by right of eminent domain, is taken not as the owner's share of contribution to a public burthen, but as so much beyond his share.

"Special compensation is therefore to be made in the latter case, because the government is a debtor for the property so taken; but not in the former, because the payment of taxes is a duty and creates no obligation to repay, otherwise than in the proper application of the tax.

"Taxation operates upon a community or upon a class of persons in a community and by some rule of apportionment.

"The exercise of the right of eminent domain operates upon an individual, and without reference to the amount, or value exacted from any other individual, or class of individuals.

"Keeping these distinctions in mind, it will never be difficult to determine which of the two powers is exerted in any given case.

"It may be proper here although not strictly necessary, to express the opinion that money can not be exacted by the government by right of eminent domain, excepting, perhaps, for the direct use of the state at large, and when the state at large is to make the compensation.

"The exigencies of a state government can seldom require the taking of money by virtue of this power even in time of war, and never in time of peace. The framers of the constitution could not have intended to delegate to municipal corporations the right of taking money under this power, because it is entirely unnecessary. Money can always be had by taxation; lands can not; and therefore lands may be taken by right of eminent domain, but money may not. The 7th section of article 1 of the constitution, confirms this construction of the power. It directs the compensation for private property so taken, to be ascertained by a jury, or by commissioners. This is an appropriate mode when lands or goods are taken, because their value is uncertain; but not when money is taken, because its value is already fixed.

"The validity of the assessment in question, therefore, can not be maintained as an exercise of the power of eminent domain; and it can not be

maintained at all unless it be a legitimate mode of taxation."

This case was cited with approval in the opinion of this Court by Mr. Chief Justice Hughes in *Houck v. Little River Drainage District*, 239 U. S. 254, at p. 265.

In *Burnett v. Mayor, etc., of the City of Sacramento*, 12 Cal. 76 (1859), the court said by Mr. Justice Field (p. 83):

"Money is not that species of property which the sovereign authority can authorize to be taken in the exercise of its right of eminent domain. That right can be exercised only with reference to other property than money, for the property taken is to be the subject of compensation in money itself, and the general doctrine of the authorities of the present day is, that the compensation must be either made, or a fund provided for it in advance.

"The assessment, therefore, must rest for its validity upon its being a legitimate exercise of the taxing power."

In *Emery v. San Francisco Gas Co.*, 28 Cal. 345 (1865), the court said by Sawyer, J. (p. 350):

"In a certain sense money is property. But it might just as well be said, that money taken by general taxation for the ordinary purposes of State revenue is property within the meaning of the Constitution, and cannot be taken without compensation. The theory of all taxation is, doubtless, in a general sense, that there is compensation for the taxes taken in the protection and security to life, liberty and property afforded by the Government supported by the money raised. But this, manifestly, is not the compensation to be made for property taken for

public use, within the meaning of the terms as used in the section of the Constitution cited. The property referred to in the Constitution for which special compensation must be made, is something other than money, as where land is taken to be used as a street, and the like, and the compensation referred to, doubtless, means a compensation in money, the only medium by which special compensation can be accurately measured and adjusted; and to make such compensation in the case of assessments to raise money for the purpose of paying for grading streets, would be to take the money from the property holder with one hand and return it with the other; and this would leave nothing for the purposes required."

In *Hammett v. Philadelphia,* 65 Pa. 146 (1870), Sharswood, J., after referring to the opinion of Mr. Justice Field that the right of eminent domain can be exercised only with reference to other property than money, said (pp. 152-153):

"I am not able, and do not feel disposed to enter the lists upon such a question, but it does seem to me that there may be occasions in which money may be taken by the state in the exercise of its transcendental right of eminent domain. Such would be the case of a pressing and immediate necessity, as in the event of invasion by a public enemy, or some great calamity, as famine or pestilence, contributions could be levied on banks, corporations or individuals. The obligation of compensation is not immediate. It is required only that provision should be made for compensation in the future. Judge Ruggles confines the right to exact money by virtue

of the eminent domain, to the case where it is for the use of the state at large in time of war: The People *ex rel.* Griffin v. Brooklyn, 4 Comst. 419. I cannot see that there is any such necessary limitation. The public necessity which gives rise to it, prevents its being restrained by any limitations as to either subject or occasion. In truth it matters not whether an assessment upon an individual or a class of individuals for a general, and not a mere local purpose, be regarded as an act of confiscation —a judicial sentence or rescript, or a taking of private property for public use without compensation—in any aspect, it transcends the power of the legislature, and is void. I regard it as a forced contribution. If the sovereign breaks open the strong-box of an individual or corporation and takes out money, or, if not being paid on demand, he seizes and sells the lands or goods of the subject, it looks to me very much like a direct taking of private property for public use. It certainly cannot alter the case to call it taxation."

In *Cary Library v. Bliss,* 151 Mass. 364 (1890), the court, holding that it was unconstitutional to take $1,500 deposited in a savings bank and two promissory notes of a town amounting to $11,000 under the right of eminent domain, said by Knowlton, J. (p. 379):

"There may be a great public exigency, as in time of war, which will authorize the government to take money in the exercise of this right. *Mitchell v. Harmony,* 13 How. 115, 128. *Williams v. Wilkerman,* 44 Misso. 484. *Yost v. Stout,* 4 Cold. 205. But it cannot truly be said that the taking of money by a private corporation, created to administer a public

charity, is a taking of property for public use. The money taken must be paid for in money. It cannot be taken unless it is paid for in advance, or sufficient provision is made for immediate payment, which provision must be in money or in that which is deemed its equivalent. There can be no necessity for such a taking. In its nature it is not a taking for public use. There can be a taking for a public use under this power only when, in the nature of the case, there is, or may be, a public necessity for the taking."

The three cases cited in the Massachusetts court's opinion as possibly authorizing the Government to take money in time of war all dealt with property other than money. They are illustrations of the principle expressed by Chief Justice Taney in delivering the opinion of the Court in one of them, *Mitchell v. Harmony*, 13 How. 115, at p. 134:

"There are, without doubt, occasions in which private property may lawfully be taken possession of or destroyed to prevent it from falling into the hands of the public enemy; and also where a military officer, charged with a particular duty, may impress private property into the public service or take it for public use. Unquestionably, in such cases, the government is bound to make full compensation to the owner; but the officer is not a trespasser.

"But we are clearly of opinion, that in all of these cases the danger must be immediate and impending; or the necessity urgent for the public service, such as will not admit of delay, and where the action of the civil authority would be too late

in providing the means which the occasion calls for. It is impossible to define the particular circumstances of danger or necessity in which this power may be lawfully exercised. Every case must depend on its own circumstances. It is the emergency that gives the right, and the emergency must be shown to exist before the taking can be justified."

We respectfully submit that the emergency under which the taking of money, or of a right to receive money, by eminent domain can be justified does not exist under the circumstances of the case at bar. We are not dealing with a case where, to use Judge Cooley's phrase, the right of eminent domain could be exercised to compel "a forced loan, only to be justified as a last resort in time of extreme peril, where neither the credit of the government nor the power of taxation could be made available." We are not dealing with a situation where, to use Chief Justice Taney's phrase, "a military officer, charged with a particular duty, may impress private property into the public service or take it for public use." The money is not "taken possession of * * * to prevent it from falling into the hands of the public enemy." No invasion of Delaware, New Jersey or Pennsylvania has occurred. The Congress has power to lay and collect taxes to provide for the common defense, to borrow money on the credit of the United States, and to coin money and regulate the value thereof. It is by the exercise of these powers, not by the exercise of the power of eminent domain, that *money* is to be obtained by Congress in all normal circumstances, even in time of war. We may lay to one side the question as to what taking of money may be justified in the course of military operations.

To sum up: Property which is needed for public *use* may be taken in kind by the exercise of the power of eminent domain, and in no other way. Money, or the right to receive money, which is needed not for *use*, but for *revenue*, may be taken by the exercise of the power of taxation, and in no other way. A taking of one man's money by the power of eminent domain deprives him of property without due process of law, just as a taking of another man's property not for use, but to produce revenue by selling it, would deprive him of property without due process of law. We submit, therefore, that the taking of the petitioner's right to receive money and of Coffman's right to receive money in excess of $50,000 in a calendar year, if they can be justified at all, can be justified only as taxes.

> "Taxes are defined to be burdens or charges imposed by the legislative power upon persons or property, to raise money for public purposes." (*Cooley's Constitutional Limitations*, 8th ed., vol. 2, 986.)
>
> "The revenues of a State are a portion that each subject gives of his property in order to secure, or to have, the agreeable enjoyment of the remainder." (*Montesquieu, Spirit of the Laws*, bk. 12, c. 30.)

Is the exaction of money or the right of the licensor to receive money justifiable as a tax? We submit that it is not.

In the first place, there is nothing to indicate that Congress intended to impose a tax or do anything else than take property for public use. Art. I, Sec. 7, of the Constitution provides:

> "All Bills for raising Revenue shall originate in the House of Representatives; but the Senate may propose or concur with Amendments as on other Bills."

The Royalty Adjustment Act did not originate in the House of Representatives but in the Senate. Senate Bill 2794, 77th Congress, 2nd Session, was passed by the Senate (Congressional Record, vol. 88, p. 8215), amended and passed by the House (ibid., p. 8546); the Senate concurred in the House amendments (ibid., p. 8662), and the President signed the Bill on October 31, 1942 (ibid., p. 8703). This Bill is the Royalty Adjustment Act.

In the second place, if Congress did intend to impose a tax, we submit that the tax would be so arbitrary and capricious as to amount to confiscation and to deprive the persons subject to it of property without due process of law.

This Court said by Mr. Justice Harlan in *Henderson Bridge Co. v. Henderson City,* 173 U. S. 592, at p. 614:

> "It is conceivable that taxation may be of such a nature and so burdensome as properly to be characterized a taking of private property for public use without just compensation."

What is conceivable in one generation is likely to occur in the next, and in recent years the Court has held invalid under the due process clause a number of taxes imposed by Congress as being so arbitrary and capricious as to amount to confiscation. *Nichols v. Coolidge,* 274 U. S. 531; *Blodgett v. Holden,* 275 U. S. 142; *Untermyer v. Anderson,* 276 U. S. 440; *Heiner v. Donnan,* 285 U. S. 312. See also *Chicago, etc., R. R. Co. v. Chicago,* 166 U. S. 226, 241; *Barclay & Co. v. Edwards,* 267 U. S.

442, 450; *Helvering v. City Bank Farmers Trust Co.*, 296 U. S. 85, 92; and *cf. Hoeper v. Tax Commission of Wisconsin*, 284 U. S. 206. As Mr. Justice Roberts said in *Helvering v. City Bank Farmers Trust Co., ubi supra*:

> "There are, however, limits to the power of Congress to create a fictitious status under the guise of supposed necessity. Thus it has been held that an act creating a conclusive presumption that a gift made within two years prior to death was made by the donor in contemplation of death, and requiring the value of the gift to be included in computing the estate of the decedent subject to transfer tax, is so grossly unreasonable as to violate the due process clause of the Fifth Amendment. In the same category falls a statute seeking to tax the separate income of a wife as income of her husband."

If an act creating a conclusive presumption that a gift made within two years prior to death was made in contemplation of death and a statute seeking to tax the separate income of a wife as income of her husband are so grossly unreasonable as to violate the due process clause, what shall be said of the exaction made by the Royalty Adjustment Act? Take Coffman's case as an illustration. The tax would be imposed, not upon the receipts of all persons in excess of $50,000 in a year, nor upon all receipts of royalties from inventions manufactured, used, sold or otherwise disposed of for the United States in excess of $50,000 in a year, but upon a particular inventor in whose case, in the opinion of the head of a department of the Government, that amount is determined to be fair and just, taking into account the conditions of wartime production, though a contract

made many years before entitles him to much in excess of that amount. This contract is assumed to be valid and the excess over $50,000 is to be paid over to the Treasurer of the United States. Could a more arbitrary and capricious tax be devised? It is true that a limited right to judicial relief from the determination of the taxing authority is accorded to the taxpayer. But no matter what relief may be obtained by him, he must leave a "tax" in the Treasury, or the Royalty Adjustment Act will be wholly frustrated. We maintain that the selection of the subject of taxation is so arbitrary and capricious that the purpose of confiscation of his contract right is obvious. Congress may, short of arbitrariness, classify persons and things for the purpose of taxation, but here the classification has run wild.

It might be supposed that one whose invention is contributing to the winning of the war would be a favorite of the taxing power. There have doubtless been times when a subsidy would be given to such a man by the sovereign. A great statesman who was at the same time a great inventor, Benjamin Franklin, is reported to have said, "History teaches us that republics are ungrateful." When ingratitude has reached the stage of confiscation, it is time for the judicial power to interfere with the legislative and the executive; and we submit that a case for such interference is here presented. Otherwise, we see no possible bar to the selection of any class or person in the community and the imposition of a confiscatory tax upon them or him in relief of the tax burdens of the community as a whole.

Take, for example, Coffman's invention, which is of special use in wartime. In less than three years the original patent will expire. If the Government may di-

rect that royalties due to him under his exclusive license contract for the past two years and the remaining three years shall be paid instead to the Treasurer of the United States, is not the constitutional provision for just compensation disregarded in his case? If it may be disregarded in his case, why should it be regarded in the requisitioning of military or naval equipment? If the rights of licensors may be taken for the benefit of the United States, why not the rights of licensees? Why should not every person furnishing anything of use to the United States be similarly penalized with inventors? If the court sustains the Royalty Adjustment Act, then Congress may delegate to the head of any department or agency or any of his subordinates the power to call in question the propriety of amounts of money to be paid to anyone, directly or indirectly at the expense of the United States, and to substitute the United States as the beneficiary of his contract *gratis* by "taking into account the conditions of wartime production" in the teeth of contractual provisions.

Conclusion.

We maintain, therefore, that the Royalty Adjustment Act and the order made thereunder with regard to the royalties payable by the respondent to the petitioner are unconstitutional, in that they take private property without just compensation and deprive the petitioner of property without due process of law, because

(a) if they constituted an exercise of the power of eminent domain, they would be invalid for failure to secure to the petitioner just compensation for what is taken from it;

(b) they cannot be justified as an exercise of the power of eminent domain, since that power cannot be used to raise revenue but only to take property which is needed for use; and

(c) they cannot be justified as an exercise of the taxing power, since the Act did not originate in the House of Representatives, and if it imposed a tax, it would be arbitrary and capricious.

We submit further that the judgment of the court below should be reversed and the case should be remanded to that court with direction to proceed to hear the petitioner's appeal on its merits, in view of the unconstitutionality of the Royalty Adjustment Act and the order made thereunder.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. [redacted] 11

ALMA MOTOR COMPANY,
Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

REPLY BRIEF OF AMICI CURIAE

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. 806

ALMA MOTOR COMPANY,
Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

REPLY BRIEF OF AMICI CURIAE

The brief for the United States comes in short to the following points:

(a) That no right to receive royalties is taken by the Royalty Adjustment Act, but only "a new license under patented inventions."

(b) That no property is taken by the Royalty Adjustment Act, but there is merely a "reduction in the value of the license agreement."

We will take up each of these points.

(A) THE ROYALTY ADJUSTMENT ACT TAKES THE RIGHT OF THE PETITTIONER TO RECEIVE ROYALTIES FROM THE RESPONDENT.

The learned court below put the matter very clearly (R. 116-117):

"What we have here is a taking of private property for public use. The property involved is the

patent owner's royalty rights under the license with the manufacturer."

No other conclusion can be drawn from the language of the Act. The Act is "An Act To provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes." It is an Act to adjust royalties under existing licenses, not an Act to provide for new licenses, including provisions for new royalties. It does not say anything about a license to the United States. What it is concerned with is "an invention, whether patented or unpatented, * * * manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder," which "includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition" (Sec. 1). No "new license" under the invention is taken, but "whenever a reduction in the rates or amounts of royalties is effected by order, * * * such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly * * *, or by way of refund if already paid to the licensee" (Sec. 4). That no "new license" to the Government is contemplated is shown by the provision that the Act "shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the

effective date of the notice provided for" (Sec. 7). No new licenses, but royalties under existing licenses, are the sole subject matter of the Act.

The brief for the Government makes frequent references to the reports of the Senate and House Committees on Patents on the bill which was passed (S. 2794) and the report of the hearings before the House Committee on the similar House bill (H. R. 7620). Each bill was a bill for adjusting royalties for the use of inventions, and nothing was said in the hearings or the reports about a supposed "new license" taken by the United States.

Mr. Lanham, who presided at the hearings before the House Committee, said (p. 4):

> "The purpose of this legislation, if I understand it, is merely in accordance with that authority under the act of 1918, to make some proper arrangements with reference to royalties, in keeping with the war conditions which exist.
>
> "Now, is that, gentlemen, a proper preliminary statement of the purpose of this legislation? I think that we might get that definitely before us in the beginning.
>
> "Colonel Vanderwerker. I think so.
>
> "Colonel Patterson. I think so."

Colonel Earl S. Patterson, for the War Department; Mr. Ralph L. Chappell of the Procurement Legal Division, for the Navy Department; and Mr. D. L. Kreeger (whose name appears on the brief for the Government in the case at bar), for the Department of Justice, made statements in support of the bill. None of these gentlemen, nor any other witness before the Committee, said a word about a "new license" to the United States. All talked

about existing licenses, and no other licenses were hinted at.

The report of the Senate Committee, 77th Congress, 2d Session, No. 1640, reads in part as follows (pp. 4-5):

> "The bill would permit the War Department to examine existing royalty agreements of Government contractors and subcontractors and whenever it appeared that the amount of royalty was too great, such Department could give notice to the licensee not to pay any further royalty until further order. An examination of the problem would be made and a conclusion reached as to the amount of royalty deemed fair and equitable under the particular circumstances. The licensee would then be advised to pay such amount as the procurement authority found to be fair and just and no more. Such an order would apply to royalty unpaid at the time of the original notice whether or not a delivery of the article embodying the invention has taken place.
>
> * * * * * * *
>
> "The bill also attempts to make certain the credit to, or recoupment by, the Government of any reduction in royalty. The purpose of section 4 is to insure that a contractor or subcontractor, who by reason of an order reducing a royalty payment involved in his contract does not have to pay as much royalty as was contemplated by the parties at the time the procurement contract was entered into, will be compelled to give the Government the benefit of such reduction."

The report of the House Committee (No. 2602) is substantially to the same effect (pp. 5-6). Neither report says a word about a new license to the United States.

The Royalty Adjustment Order (R. 94) specifies "a fair and just rate or amount of royalty, taking into account the conditions of wartime production, to be paid by Licensee to Licensor pursuant to the licenses specified," which are existing licenses, no new license to the United States being mentioned. It provides that, "until further Order, Licensee is hereby authorized to pay to Licensor (a) under the licenses identified * * *, (b) under any license between them entered into on or after the effective date" of a notice of December 30, 1942, and "(c) under any license between them entered into on or after the date of this Order which in any respect continues, supplements, modifies, or supersedes any of the licenses referred to * * * royalties as * * * specified in * * * this Order, and no more." The licenses dealt with are licenses to which the Government is not a party, and no new license to the Government is called for. The "Licensee is hereby directed forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under the licenses referred to * * * on account of supplies, equipment, or materials delivered to or for the War Department, which are in excess of the royalties specified" (R. 95), and the royalty specified is "$0.00" (R. 96).

Could there be a clearer case of the taking of an existing right to royalties under a license for the benefit of the United States?

Whether we look to the language of the Act, to its legislative history, or to the order made under it and complained of in the case at bar, the theory that the Act appropriates a new license, not the royalties due under an existing license, like the baseless fabric of a

vision, dissolves and leaves not a rack behind. It is such stuff as dreams are made on; and its little life is rounded with a sleep.

What we have said disposes of the reliance by the Government on *Omnia Commercial Co. v. United States,* 261 U. S. 502, discussed in the brief of *amici curiae* (pp. 15-16) and in the brief for the Government (*passim*). What was taken in that case was not the right of the plaintiff to buy steel plate but the steel plate which it had the right to buy. What is taken in this case is the right of the petitioner to be paid royalties under its contract, which the respondent is "directed forthwith to pay over to the Treasurer of the United States."

Since, however, the *Omnia* case appears to be the sole reliance of the Government in its effort to avoid the payment of the market value of the right to receive royalties taken from the petitioner, we bring to the attention of the Court a number of subsequent decisions showing its inapplicability to the case at bar.

Brooks-Scanlon Corp. v. United States, 265 U. S. 106, discussed in the brief of *amici curiae* (pp. 16-18), is such a case. Mr. Justice Butler, delivering the opinion of the Court, said (pp. 120-121):

> "*Omnia Commercial Co. v. United States,* 261 U. S. 502, does not support the contention that claimant's contract was not expropriated. There, claimant had a contract giving it an opportunity to purchase a large quantity of steel plate from a steel company at a price under the market. If the contract had been carried out, large profits would have resulted. Before any deliveries were made, the United States requisitioned the steel company's entire production of steel plate. No specific steel plate

had been appropriated to the contract, and no part of the purchase price had been paid. The action taken by the United States applied to the steel company only and created no relations with the claimant. The contract was not kept alive nor resorted to in order to determine anything involved in the transaction between the United States and the steel company; the benefit of the low prices was not taken; no payments made on account of the purchase price were taken; nothing belonging to the Omnia Company was taken. Damages claimed were held too remote. The differences between that case and this are essential and obvious."

Let us apply to the case at bar the tests laid down in the *Brooks-Scanlon* case. Here the action taken by the United States did *not* apply to the licensee only and *did* create relations with the licensor. The license *was* kept alive and resorted to in order to determine the amount involved in the transaction between the United States and the licensee. The benefit of the royalties *was* taken by the United States, including payments to be made on account of use prior to the order. A right to royalties belonging to the licensor *was* taken, as the learned court below said (*supra*, p. 1). Nothing belonging to the *licensee* was taken. Compensation for the right taken from the licensor must be paid. The Royalty Adjustment Act recognizes this in giving the licensor the right to sue the United States, but deprives him of just compensation, because he cannot sue for the value of the amount taken but only for compensation that takes into account the conditions of wartime production. If he could sue for the value of the right taken, there would be no purpose in the Act, because he would get just what the United States had taken from him.

A. W. Duckett & Co. v. United States, 266 U. S. 149, was a claim for the value of the claimant's interest in a pier under a lease. The claim was based upon an implied contract alleged to have arisen from a taking for war purposes of portions of the docks, including the claimant's pier. The Court of Claims rejected the claim, and its judgment was reversed by this Court, with directions to award proper compensation to the appellant. Mr. Justice Holmes, delivering the opinion of the Court, said (p. 152):

> "*Omnia Commercial Co. v. United States*, 261 U. S. 502, which was thought to give some color to the decision below, has no bearing upon the present question. There the Government made a requisition of the entire product of a Steel Company for a year. On the assumption that the Government thereby made it impossible for the Steel Company to perform a contract to sell a large quantity of steel plate to the claimant, the decision was that nevertheless the contract was not taken. The contract was no part of the *res* taken and whatever might be the collateral consequences of the appropriation liability for them was not an incident of the Government's act. 261 U. S. 510. Here the claimant's possession under its lease was a part of the *res*, and therefore was within the implied promise to pay."

So in the case at bar the petitioner's right to royalties under its license contract was the *res* taken.

International Paper Co. v. United States, 282 U. S. 399, was a proceeding to recover compensation for property rights in water, alleged to have been taken for war purposes. The petitioner was entitled by conveyance

and lease to draw water from a canal. The President, by reason of the exigencies of the national security and defense, placed an order with the owner of the canal for and requisitioned the total electrical power which was capable of being produced through the use of all waters diverted through the canal. The Court of Claims found that the shutting off of the water from the petitioner's mill cost it $304,000 overhead expense, but gave judgment that the petition be dismissed. This Court reversed the judgment. Mr. Justice Holmes, delivering the opinion of the Court, said (p. 408):

> "We perceive no difficulty arising from the case of *Omnia Commercial Co. v. United States*, 261 U. S. 502. There the taking of the whole product of a company went no further than to make it practically impossible for that company to keep a collateral contract to deliver a certain amount of steel to the appellant. But here the Government took the property that the petitioner owned as fully as the Power Company owned the residue of the water power in the canal. Our conclusion upon the whole matter is that the Government intended to take and did take the use of all the water power in the canal; that it relied upon and exercised its power of eminent domain to that end; that, purporting to act under that power and no other, it promised to pay the owners of that power, and that it did not make the taking any less a taking for public use by its logically subsequent direction that the power should be delivered to private companies for work deemed more useful than the manufacture of paper for the exigencies of the national security and defence."

Similarly, in the case at bar it may be said that the Government intended to take and did take the right

to all the royalties under the petitioner's license contract; that it relied upon and exercised its power of eminent domain to that end; that, purporting to act under that power and no other, it promised to pay the petitioner, the owner of the patent, for its right to royalties. *The constitutional objection is that it did not promise to pay the petitioner the full and perfect equivalent in money of that right but something less, depending on the conditions of wartime production and the answer to a claim that the patent is invalid.*

"Frustration and appropriation are essentially different things": *Omnia Commercial Co. v. United States,* 261 U. S. 502, at 511. The cases cited in the preceding paragraphs show that it is so clear that the right of the petitioner to royalties is not frustrated but is appropriated for the Treasury of the United States that we deem it unnecessary to discuss the cases of *Mullen Benevolent Corp. v. United States,* 290 U. S. 89, and *United States v. Powelson,* 319 U. S. 216, relied on in the brief for the United States (footnote 24). The Government in the case at bar has proceeded in conformity with the requirements of the license contract and put itself in the shoes of the licensor so far as the right to royalties under that contract is concerned. It has taken from the licensor and "appropriated to the use of the United States all the rights and advantages that an assignee of the contract would have had" (*Brooks-Scanlon Corp. v. United States,* 265 U. S. 106, at 120). The right and advantage which it appropriated are not subject to the defense of invalidity of the patent, as the brief for the Government suggests. That defense cannot be asserted against the United States, the assignee of the right to royalties. It is available only if the licensor sues the United States.

(B) THE ROYALTY ADJUSTMENT ACT IS A TAKING OF PROPERTY, NOT MERELY A REDUCTION OF ITS VALUE.

The second argument for the Government is that the Act "finds independent support in the Federal war powers." By "independent" the counsel for the Government mean independent of the support of the Act under the power of eminent domain.

But it is unnecessary to repeat in detail the discussion of the legislative history, the terms of the Act and the terms of the Royalty Adjustment Order to show that though the Act was passed for the purpose of the war, no power except the power of eminent domain was exercised for that purpose. The Act must stand or fall as a law for the taking of property for public use. It is not a price-fixing regulation. Royalties fixed by license agreements are not adjusted generally, and the reductions that are made must "inure to the benefit of the Government by way of a corresponding reduction in the contract price * * *, or by way of refund if already paid to the licensee" (Sec. 4). The orders direct that the amount of the reduction (in the case at bar, the whole amount of the royalties) shall be paid over to the Treasury of the United States, and the orders are applicable to sums past due as well as to royalties to become chargeable to the United States in future.

What we have just said clearly disposes of the reliance placed by the Government on the decision in *Bowles v. Willingham*, 321 U. S. 503, where Mr. Justice Douglas, delivering the opinion of the Court, said (p. 517):

> "We are not dealing here with a situation which involves a 'taking' of property."

Another case relied on by the Government is *Calhoun v. Massie,* 253 U. S. 170, in which an Act limiting the amount that might be paid to an a torney on account of services or advances in connection with a claim for which the Act made an appropriation was held to be within the power of Congress. The Court, in an opinion by Mr. Justice Brandeis, pointed out, however (p. 176):

> "At the time when the contract was entered into there was no legislation general or special which conferred upon Massie any right of recovery even if he should establish to the satisfaction of Congress that his claim was equitable. A statute making an appropriation to pay the claim was thus a condition precedent to liability on the part of Massie to Calhoun; and the thing contracted for was Calhoun's aid in securing its enactment. The aid was to be given by representing Massie before the Court of Claims. But both of the parties knew that, although Calhoun might have success before the Court of Claims, Congress would still be free to refuse both to recognize the claim as an equitable one and to make an appropriation for its payment. They also knew that if it concluded to grant relief, Congress was free to do so upon such conditions as it deemed proper."

Moreover, there was no taking of Calhoun's right by the Government.

Norman v. Baltimore & Ohio R. R. Co., 294 U. S. 240, lends no support to the contention that the Royalty Adjustment Act is constitutional. That case involved the application of the Joint Resolution of June 5, 1933, to a "gold clause" in a bond for the future payment of dollars in gold coin of the United States "of or equiva-

lent to the standard of weight and fineness existing" on the date of the bond. The bond was a private obligation, not an obligation of the United States. The Attorney General placed his argument squarely on the ground that there was no taking. He said (pp. 257-258):

> "The contention that the Joint Resolution constitutes a taking of property without just compensation is clearly without foundation. The provision of the Fifth Amendment which bears upon that proposition relates to the taking of private property by the Government for a public use; and the Resolution, as applied to gold clauses in private contracts, is not a taking of property in a constitutional sense, but merely frustrates a purpose contained in a private obligation found to be incompatible with the exercise of national power."

Mr. Chief Justice Hughes, delivering the opinion of the Court, was careful to point out (p. 306):

> "The Government's own contracts—the obligations of the United States—are in a distinct category and demand separate consideration. See *Perry v. United States*, decided this day, *post*, p. 330."

Perry v. United States, 294 U. S. 330, where the Joint Resolution was held to be unconstitutional insofar as it undertook to nullify gold clauses in obligations of the United States and to provide that such obligations should be discharged by payment in any currency which was legal tender, affords a closer analogy to the case at bar. In the *Perry* case the effect of the reduction in value of the obligation was, like the effect of the Royalty Adjustment Order here, to improve the financial position of the United States. The plaintiff in that case had not attempted to show that in relation to buying power he

had sustained any loss; but the petitioner here clearly has sustained loss to the extent that its royalties or any part thereof are payable to the United States instead of to itself.

Philadelphia, B. and W. R. R. Co. v. Schubert, 224 U. S. 603, also relied upon in the brief for the Government, sustained the provision of the Employers' Liability Act of 1908 to the effect that exemptions from liability should be void and the acceptance of benefits under a relief contract should not be a bar to recovery in a case where the relief contract was made before the passage of the Act. The case is of course distinguishable, however, as a mere exercise of the police power without any taking of property for the United States (see brief of *amici curiae,* p. 29).

Appendix C to the brief for the United States is a curious collection of letters and excerpts from letters between various Government officials, and in one case between such an official and an officer of the respondent, none of them in the record of the case. As to these, the admonition of this Court, speaking by Mr. Justice Harlan in *Schley v. Pullman Car Co.,* 120 U. S. 575, appears to us pertinent (p. 578):

> "Notwithstanding the agreement, that the case should be heard in the court below upon the single question referred to in the stipulation, the counsel for the defendant in error states many things, which he declares to be 'incontrovertible facts,' and within the knowledge of opposing counsel, but which are wholly unsustained by anything in the record. The motion to strike out relates to those matters. The excuse given for this breach of pro-

fessional propriety is 'the extreme brevity of the record.' But it is the same record upon which counsel for the company succeeded for his client, and which, by agreement, contained all that was to be submitted to the court. The excuse given furnishes no apology whatever for his violation of the terms of the stipulation, much less does it palliate his attempt to influence the decision here, by reference to matters not in the record, and which, he must have known, could not be taken into consideration. It is only necessary to say that the facts, *dehors* the record, which have been improperly introduced into the brief of the counsel for the defendant in error, have not in any degree influenced our determination of the case."

Cf. *Mitchell v. United States,* 9 Pet. 711, at p. 731; *Pacific R. R. of Missouri v. Ketchum,* 95 U. S. 1, at p. 3; *South Carolina v. Wesley,* 155 U. S. 542, at p. 544.

One only of the letters in this appendix concerns our client, in common with all other licensors who have suffered from Royalty Adjustment Orders. In this letter, dated April 11, 1945, and addressed to the Hon. Francis M. Shea, Assistant Attorney General, whose name appears on the brief for the United States in this case, it is "estimated" that more than $128,000,000 has been saved to the War and Navy Departments as a result of orders and agreements made pursuant to the Royalty Adjustment Act, "subject to reduction by the amounts which the patent owners in question may recover as * * * fair and just compensation * * * under Section 2 of the Act, in respect of royalty adjustment orders issued to date." If, as we contend, the payment of just com-

pensation requires the payment of the full and perfect equivalent in money of the money so taken, then the Act is a nullity and should not and will not save the United States anything. In any event, an "estimate" of savings could not be introduced in evidence. It is irrelevant to the issue between the parties. And if it *were* relevant, the estimate would still be one of "stage money" unless it should be reduced by the large income taxes payable by the licensors on their royalties if the royalties are not confiscated but the licensors are treated, as they should be, like all other citizens.

If our contention is right that this $128,000,000 belongs to the patentees under valid contract rights, this Court will defend each of them from the taking by the United States without compensation of his own share of the sum, however small. As the Circuit Court of Appeals for the Third Circuit said in *In re Manderson,* 51 Fed. 501, by Wales, D. J. (p. 503):

> "Article 5 of the amendments to the constitution of the United States prohibits the taking of private property for public use without just compensation. If the use for which it is proposed to take such property is not a public use, or if the owner of the property is not to be paid an *equivalent,* to be lawfully ascertained for its loss, then no proceedings for condemnation can or should be allowed." (Italics ours.)

Under all the authorities, the rights of the patentee and licensor are property (brief of *amici curiae,* pp. 5-8). The question before this Court is a momentous one: Is this property to be protected in the same manner as other property?

The Pittsburgh Post-Gazette of April 20, 1945, carries the following item:

"New York, April 19.—(AP)—Undersecretary of War Robert P. Patterson said today that 'science, the servant of peace, is the artisan in war.'

"'Without the help of our best scientists and technicians, our military engine soon would become little more than a museum piece,' he said."

Is not the laborer worthy of his hire?

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1946

NO. 11.

ALMA MOTOR COMPANY, Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA, Intervenor.

SUPPLEMENTAL BRIEF OF AMICI CURIAE.

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UNITED STATES OF AMERICA, Intervenor.

SUPPLEMENTAL BRIEF OF AMICI CURIAE.

On May 21, 1945, the Court entered the following order in the above entitled case (65 S. Ct. 1190):

"This case is ordered restored to the docket for reargument. Counsel are requested to give special consideration in their briefs and argument to the following questions:

"1. Whether the Royalty Adjustment Act, 56 Stat. 1013, 35 U.S.C.A. § 89 et seq., is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold, and delivered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order.

"2. Whether sec. 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, Timken-Detroit Axle Company."

In this supplemental brief we shall confine our arguments to the questions stated in the foregoing order and similar questions suggested by them, and shall not elaborate further on the arguments contained in our brief and reply brief as *amici curiae* filed before the argument in this case at No. 806 October Term, 1944. However, we of course do not mean to recede from any of the positions taken in those arguments, which we shall briefly repeat before answering the questions stated in the Court's order.

We maintain that the Royalty Adjustment Act cannot be justified under the patent power, since its effect is not to secure to inventors the exclusive right to their discoveries but to reduce or destroy the value of that right (brief of *amici curiae*, No. 806, October Term, 1944, pp. 3-4); that, though it is an exercise of the war power, it must nevertheless meet the requirements of the Fifth Amendment (id., pp. 4-5); that the Act and the order made thereunder in this case violate the Fifth Amendment by taking property without just compensation, since Congress has refused to pay the value of the contract right to royalties which it has taken for the benefit of the United States, the value of that right being the amount which could be obtained for an assignment of it by an owner willing to sell it from a purchaser willing to buy it (id., pp. 5-32); that the Act and the order made

thereunder deprive the petitioner of property without due process of law, since the power of eminent domain cannot be used to raise revenue by taking a right to money, but only to take property which is needed for *use*, not for revenue (id., pp. 33-43); that the Act was not intended to impose a tax, since it did not originate in the House of Representatives (id., pp. 43-44); and that, if the Act imposed a tax, it would be so arbitrary and capricious in the selection of the subjects of taxation, to-wit, certain licensors whose royalties are believed to be unreasonable by the head of a department or agency of the Government to the exclusion of all other persons, as to deprive the proposed taxpayers of property without due process of law (id., pp. 44-46).

In our reply brief we showed that the effect of the Act was to take for the United States not a new license under the petitioner's patent, but the right to receive the royalties under its contract with the respondent, which were to be paid over to the Treasurer of the United States (pp. 1-10, 16), and that the Act *takes* the value of the license agreement for "the benefit of the Government" and does not merely *reduce* that value (pp. 11-14).

The arguments which we have made in respect to the Royalty Adjustment Act, if they are sustained by the Court, will of course dispose of the need of answering the questions to which consideration is invited in the order of the Court, for they show that the Act is unconstitutional under the Fifth Amendment as applied to royalties due for patented devices whether they are manufactured, sold and delivered before or after the promulgation of the Royalty Adjustment Order. If this is so, it would be foolish to remit petitioner to a suit to be brought in the Court of Claims, when its recovery

in that court would have to be the full amount of the royalties stipulated to be paid under its contract with the respondent but paid instead to the Treasurer of the United States. The purpose and effect of the Act is to reduce royalties where they are believed to be unreasonable or excessive, and the reduction is to "inure to the benefit of the Government"; but the reduction cannot inure to the benefit of the Government if the Government is not entitled to keep the amount of it without paying "the full and perfect equivalent in money" of the money which has been taken.

With this preliminary statement of our position we proceed to answer the Court's questions.

Summary of Argument.

I.

The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act.

The theory of the Government that the Royalty Adjustment Act is valid as in effect authorizing "the taking of a new license under patented inventions" cannot apply to royalties for devices sold and delivered to the Government before the enactment of the Act, since the Government needed no license to use such devices.

The argument for the Government that the contract between the petitioner and the respondent was merely "frustrated" is answered by the fact that this contract was expressly kept alive and was the basis of the claim of the Government under the Royalty Adjustment Order.

The theory of the Government that the Royalty Adjustment Act is a valid price-fixing measure is answered by the fact that it is not a price-fixing regulation but a provision for taking into the Treasury of the United States the whole or a part of the amount to which the licensor is entitled, without changing the price.

Since the Act attempts to take the right to royalties, it cannot stand unless it satisfies not merely the requirement of the just compensation clause (discussed in our original brief as *amici curiae*), but the requirement of the due process clause.

The authorities under the due process clause condemn legislation which operates retroactively so as to divest vested property rights, acting directly to that end and not as an incident of a broad general policy.

II.

The Act should not be construed retroactively to apply to royalties due from respondent to petitioner for devices delivered to the Government before the enactment of the Act.

Section 1 of the Act shows that it is to take effect only from the date of enactment, for it states that "whenever an invention, whether patented or unpatented, *shall* be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having a right to grant licenses thereunder," the royalties may be adjusted.

Section 2 of the Act provides that compensation shall take into account the conditions of wartime production. It is applicable to royalties accruing by reason of production after the date of the Act, but would not

be applicable to all royalties due for manufacture and sale prior to the enactment of the Act, since certain of those royalties were earned in peacetime.

Section 7 of the Act, the only retroactive provision, refers to royalties charged or chargeable for devices delivered before the effective date of the *notice* provided for in Section 1 but does not cover royalties due for devices delivered before the enactment of the Act, in view of the prospective language of Section 1 and of the Act in general.

To apply the Act to royalties due before its enactment would run counter to the uniform current of decisions in this Court for the past one hundred and forty years.

III.

If the Act is applied to royalties due for devices delivered after the enactment of the Act but before the promulgation of the departmental royalty order, it would violate not merely the just compensation clause (as shown in our principal brief) but also the due process clause, because the right to these royalties had vested before the belief of the department heads that they were excessive was ascertainable or had even been formed.

Congress did not intend that the Act should apply to royalties due at the time of the notice as to belief of unreasonableness if the Act could not apply to royalties due at the time of the enactment. Section 7 states the applicability of the Act in two separate sentences, the first applying it to royalties on supplies, equipment, or materials to be delivered after the effective date of the notice, and the second applying it to royalties on sup-

plies, equipment, or materials already delivered but not paid for prior to the effective date of the notice. Congress thus indicated its desire to have the applicability of the Act to royalties between the date of the enactment and the date of the notice stand or fall on the constitutionality of the application of the Act to royalties due at the date of enactment.

IV.

Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, does not save to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent.

The only remedy available to petitioner under Section 2 is inadequate, because it does not permit the petitioner to recover the royalties stipulated to be paid under its contract. These royalties do not take into account the conditions of wartime production; and the respondent as a licensee cannot contest the validity of the patent under which it is licensed.

That the Court of Claims cannot give petitioner anything more than Section 2 allows clearly appears from a long line of cases which hold that suits against the Government can succeed only subject to the restrictions and limitations imposed by the Act of Congress permitting the remedy.

The Court of Claims cannot disregard the limits set by the Royalty Adjustment Act upon the recovery by the petitioner and give it under any other act the full compensation guaranteed to it by the Constitution.

If the petitioner should sue under the Royalty Adjustment Act, it would be foreclosed from raising the

question of the unconstitutionality of the Act under which it had sued.

Any judgment of the Court of Claims would have the effect either, on the one hand, of rendering the Act nugatory by allowing the recovery of the full amount of the royalties stipulated or, on the other hand, of unconstitutionally denying the petitioner its right to just compensation. This Court, therefore, should pass on the question of the constitutionality of the Act and hold that it is invalid under the Fifth Amendment.

1(a). The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act.

Three theories have been advanced by the Government to sustain the constitutionality of the Royalty Adjustment Act. We shall deal with them in turn.

The New License Theory.

The first theory of the Government is that the Royalty Adjustment Act is valid under the federal power of eminent domain, since it "in effect authorizes the taking of a new license under patented inventions, in return for fair and just compensation, whenever the consensual license already held by the Government contractor or subcontractor provides for royalties which the Government deems to be unreasonable and excessive under wartime conditions" (brief for the United States, p. 11). In our reply brief we have shown that not only

the language of the Act but also its legislative history and the order made under it and complained of in the case at bar show that the Act has nothing to do with the appropriation of a new license, but applies only to royalties, that is, money, due or to become due under existing license contracts.

What would be the use to the Government of a license as to devices sold and delivered to it before the enactment of the Act? A license by the owner of a patented device is nothing more than a consent to the use of the patent in making, using, or selling the device. It is "a mere waiver of the right to sue" for an injunction against, or damages for, infringement. *De Forest Radio Tel. Co. v. United States,* 273 U. S. 236, by Mr. Chief Justice Taft at pp. 241-242; *General Talking Pictures Corp. v. Western Electric Co.,* 304 U. S. 175, by Mr. Justice Butler at p. 181. After the patented devices were sold and delivered to the Government, it needed no license to use them. As this Court said by Mr. Justice Miller in *Adams v. Burke,* 17 Wall. 453, at p. 456:

> "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.
>
> "But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular

machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

It is unnecessary to labor the point, because it is too clear for argument that as to the devices sold and delivered to the Government before the enactment of the Act there is no room whatever for the application of the Government's new license theory. It may be of interest, however, to note that the principle of *Adams v. Burke* has been applied in no less than eleven other decisions of this Court: *Bloomer v. McQuewan*, 14 How. 539, 549-550; *Chaffee v. Boston Belting Co.*, 22 How. 217, 223; *Bloomer v. Millinger*, 1 Wall. 340, 351-352; *Mitchell v. Hawley*, 16 Wall. 544, 548; *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U. S. 425, 432; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, 666; *Bauer v. O'Donnell*, 229 U. S. 1, 17-18; *United States v. General Electric Co.*, 272 U. S. 476, 489; *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 457; *United States v. Univis Lens Co.*, 316 U. S. 241, 250; *United States v. Masonite Corp.*, 316 U. S. 265, 277-278.

But let the Government call what it did the taking of a license if it will; it will not thereby obscure the plain, bald fact that under the purported authority of the Royalty Adjustment Act it took the petitioner's right to receive money from the respondent and ordered the latter to pay the money instead to the Treasurer of the United States. The whole argument as to the taking of a license by the Royalty Adjustment Act is nothing but a darkening of counsel by words that ignore what the Act says, what it was intended to do, and what was actually done under it. What was done under the Act —and rightly done if it is construed to be retroactive and

held to be constitutional—was to take money already due and payable and the right to receive more money in future if use should be made of the license by the respondent in the manufacture of devices for, or sale of them to, the United States.

The Frustration Theory.

The argument for the Government that the contract between the petitioner and the respondent was merely "frustrated," based on *Omnia Commercial Co. v. United States*, 261 U. S. 502, runs in the teeth of what the Act calls for and what was done under it, equally with the argument based on the supposititious license. The license contract between the parties was not terminated, but was expressly kept alive and was the basis of the claim of the United States under the Royalty Adjustment Order. The benefit of the royalties under that contract was taken from the petitioner by the United States, including the right to payments to be made on account of use prior to the order. As the learned judge who wrote the opinion of the court below said (R. 116-117):

> "What we have here is a taking of private property for public use. The property involved is the patent owner's royalty rights under the license with the manufacturer."

Nothing belonging to the licensee was taken. The right of the licensor was taken, without providing for the payment to him of the just compensation secured to him by the Fifth Amendment. The Government sought to substitute itself for the licensor as a recipient of royalties, and it insists that it cannot be forced to substitute itself for the licensee as a payer of royalties. We do not

contend that it must substitute itself for the licensee as a debtor. All that the Constitution requires is that it give to the dispossessed licensor the full amount which the licensee would have had to pay it.

At the first oral argument the Government appeared to take the position that the contract was executory, based on the fact that under paragraph (VIII) of the license contract here involved (R. 90) the licensor agreed that it would, within sixty days after service on it of notice in writing of unlicensed manufacture by others of transfer cases within the scope of the agreement, institute and diligently prosecute suits to enjoin such manufacture. It may be pointed out in passing that the Act is in no way limited to the adjustment of royalties under license contracts where the licensor is subject to such a duty; and there is no reason to suppose that Congress would wish it to be applicable in such a case if it could not be applied equally to the cases of royalties due under other license contracts. The license theory must stand or fall on a proper interpretation of the Act as it is drawn and not on a rewriting of its terms so as to make it apply only to the particular license contract here involved. But even if we look only to the terms of that contract, the argument of the Government is erroneous; for it is apparent that the royalties fixed are to be paid, under paragraph (IV) (R. 89), semi-annually without regard to the performance or nonperformance of the agreement to prosecute unlicensed manufacturers. It is only if the licensor neglects or declines to institute and actively prosecute suits, or the patent claims are held invalid in such litigation, that the licensee is to be relieved of its obligations to pay royalties (R. 90). In the petitioner's license contract, as in the simplest form of license contract, once articles had been manufactured

and sold under it, the contract, so far as those articles were concerned, was completely executed save for the payment of royalties.

The Price-Fixing Theory.

Another theory of the Government is that the Royalty Adjustment Act is a valid price-fixing measure and that "the Act may validly apply to royalties accruing prior to its passage, the result being merely the reduction in the value of the license agreement" (brief for the United States, p. 13). In our reply brief we have called attention to the fact that the Act is not a price-fixing regulation; that it does not adjust generally royalties fixed by license agreements for the benefit of whoever may be concerned; that under this Act, whenever a reduction in royalties is effected, it "shall inure to the benefit of the Government by way of a corresponding reduction in the contract price * * *, or by way of refund" (Section 4); and that the orders made under the Act direct that the amount of the reduction (in the case at bar, the whole amount of the royalties) shall be paid over to the Treasurer of the United States. It is one thing for the Government, as a disinterested party, to decide that the interest of the people calls for a regulation of prices at the expense of invalidating contract rights; it is quite another thing for the Government, as an interested party, to *take* contract rights to prices for its own benefit. The latter thing it cannot constitutionally do without paying "the full and perfect equivalent in money of the property taken": *United States v. Miller*, 317 U. S. 369, at p. 373. And the latter thing is exactly what was done in the case at bar, whether it is called price-fixing or by any other euphemism.

Unconstitutional Taking of Vested Rights.

Since the Royalty Adjustment Act, whether it be called a licensing act or a price-fixing act, attempts to take the right to royalties, it cannot stand unless it satisfies not merely the requirement of the just compensation clause (which we submit it does not) but also the requirement of the due process clause of the Fifth Amendment. We submit that to apply it so as to "adjust" royalties due to the licensor before its enactment would violate the due process clause, under a long line of cases holding that a statute violates that clause if it divests vested property rights, acting directly to that end and not as an incident of some broader general policy. "The general rule," said Mr. Chief Justice Hughes in *Graham v. Goodcell,* 282 U. S. 409, at p. 426, is "that it is not consistent with due process to take away from a private party the right to recover the amount that is due when the act is passed."

In *Steamship Co. v. Joliffe,* 2 Wall. 450, a pilot suing under a California statute which allowed him to collect one-half pilotage fees when his services were refused was met by the defense that, the act having been repealed, he could not maintain his action. On this point the Court, speaking by Mr. Justice Field, said at pp. 457-458:

> "The claim of the plaintiff below for half-pilotage fees, resting upon a transaction regarded by the law as a *quasi* contract, there is no just ground for the position that it fell with the repeal of the statute under which the transaction was had. When a right has arisen upon a contract, or a transaction in the nature of a contract authorized by statute, and has been so far perfected that nothing remains to be

done by the party asserting it, the repeal of the statute does not affect it, or an action for its enforcement. It has become a vested right which stands independent of the statute. And such is the position of the claim of the plaintiff below in the present action: the pilotage services had been tendered by him; his claim to the compensation prescribed by the statute was then perfect, and the liability of the master or owner of the vessel had become fixed."

So in the case at bar the petitioner's claim to royalties prescribed by the license agreement for devices sold before the enactment of the Royalty Adjustment Act was perfect, and the liability of the respondent had become fixed.

In *Koshkonong v. Burton*, 104 U. S. 668, the question was as to whether a judgment should allow interest upon the amount of each coupon of a municipal bond from its maturity, under the authority of an act passed in 1859. In 1865 the highest court of the state held that the bondholder was entitled to interest upon interest. In 1868 the legislature passed an act declaring that it was the meaning of the act of 1859 and of all other laws prescribing the rate of interest that interest should not be compounded unless an agreement to that effect was clearly expressed, and amended the act of 1859 so that interest upon the bonds should not be construed to bear interest. This Court held the later act unconstitutional, saying by Mr. Justice Harlan at pp. 678-679:

"It was said by Chancellor Walworth, in *Salters v. Tobias* (3 Paige (N. Y.), 338, 344), that, 'in England, where there is no constitutional limit to the

powers of Parliament, a declaratory law forms a new rule of decision, and is valid and binding upon the courts, not only as to cases which may subsequently occur, but also as to pre-existing and vested rights. But even then the courts will not give it a retrospective operation, so as to deprive a party of a vested right, unless the language of the law is so plain and explicit as to render it impossible to put any other construction upon it. In this country, where the legislative power is limited by written constitutions, declaratory laws, so far as they operate upon vested rights, can have no legal effect in depriving an individual of his rights, or to change the rule of construction as to a pre-existing law. Courts will treat such laws with all the respect that is due to them as an expression of the opinion of the individual members of the legislature as to what the rule of law previously was. But beyond that they can have no binding effect; and if the judge is satisfied the legislative construction is wrong, he is bound to disregard it.' When counsel, in *Ogden v. Blackledge* (2 Cranch, 272, 277), announced that, to declare what the law is, or has been, is a judicial power, to declare what the law shall be is legislative, and that one of the fundamental principles of all our governments is that the legislative power shall be separate from the judicial, this court interrupted them with the observation that it was unnecessary to argue that point. Prior to the passage of the act of 1868, the highest judicial tribunal of the State had adjudged, that when a sum was to be paid at a specified time as interest, that sum bore interest from that time until paid. This was an adjudication as to what was the local law in that

class of cases. And the utmost effect to be given to a subsequent legislative declaration, as to what was the proper meaning of the statutes which had thus been the subject of judicial construction, would be to regard it as an alteration of the existing law in its application to future transactions, especially where, as was the case in the act of 1868, that declaration was accompanied by a distinct provision, in terms, changing the pre-existing law. In *Stockdale v. Insurance Company* (20 Wall. 331), this court, speaking by Mr. Justice Miller, said, that 'both on principle and authority it may be taken to be true, that a legislative body may, by statute, declare the construction of previous statutes so as to bind the courts in reference to all transactions occurring after the passage of the law, and may, in many cases, thus furnish the rule to govern the courts in transactions that are past, provided no constitutional right of the party concerned is violated.' Sedgwick, Contr. Stat. and Const. Law (2d ed.), pp. 214, 227; Cooley, Const. Lim. 93, 94. It is clear, therefore, that neither the act of 1868 nor the provision quoted from the revision of 1878, which is but a continuation of the second section of the act of 1868, can be deemed applicable to the case before us. The contract between the town and the holders of its securities was entered into prior to those enactments, and the rights of the parties must necessarily be determined by the law as it was when the contract was made. It was not within the constitutional power of the legislature to take from the plaintiff his right, whether arising on express or implied contract, to interest upon interest, if, when the coupons were executed and delivered, he,

or the then holder thereof, had such right, under the law of the State."

Ettor v. City of Tacoma, 228 U. S. 148, was a case in which the Court held that the repeal of a statute which had been construed as giving consequential damages so as to affect rights obtained thereunder was a deprivation of property without due process of law as guaranteed by the Fourteenth Amendment. The Court, speaking by Mr. Justice Lurton, said at p. 156:

> "The necessary effect of the repealing act, as construed and applied by the court below, was to deprive the plaintiffs in error of any remedy to enforce the fixed liability of the city to make compensation. This was to deprive the plaintiffs in error of a right which had vested before the repealing act, a right which was in every sense a property right. Nothing remained to be done to complete the plaintiffs' right to compensation except the ascertainment of the amount of damage to their property. The right of the plaintiffs in error was fixed by the law in force when their property was damaged for public purposes, and the right so vested cannot be defeated by subsequent legislation."

In *Forbes Pioneer Boat Line v. Board of Commissioners,* 258 U. S. 338, a state legislature declared by special act that tolls paid by the plaintiff had been properly collected, although the plaintiff had sued to get back such tolls, which at the time of their collection had been unlawfully exacted. The Court held such action on the part of the legislature unconstitutional under Article I, Section 10, of the Constitution and the due process clause of the Fourteenth Amendment. Mr. Justice Holmes, speaking for the Court, said at p. 339:

"Stripped of conciliatory phrases the question is whether a state legislature can take away from a private party a right to recover money that is due when the act is passed. The argument that prevailed below was based on the supposed analogy of *United States v. Heinszen & Co.*, 206 U. S. 370, (*Rafferty v. Smith, Bell & Co.*, 257 U. S. 226), which held that Congress could ratify the collection of a tax that had been made without authority of law. That analogy, however, fails. A tax may be imposed in respect of past benefits, so that if instead of calling it a ratification Congress had purported to impose the tax for the first time the enactment would have been within its power. *Wagner v. Baltimore*, 239 U. S. 207, 216, 217. *Stockdale v. Atlantic Insurance Co.*, 20 Wall. 323. But generally ratification of an act is not good if attempted at a time when the ratifying authority could not lawfully do the act. *Bird v. Brown*, 4 Exch. 786, 799. If we apply that principle this statute is invalid. For if the Legislature of Florida had attempted to make the plaintiff pay in 1919 for passages through the lock of a canal, that took place before 1917, without any promise of reward, there is nothing in the case as it stands to indicate that it could have done so any more effectively than it could have made a man pay a baker for a gratuitous deposit of rolls."

If a state legislature cannot take away from a private party a right to recover money that is due when the act is passed, how can Congress take away from a private party a right to receive royalties that were due when the Royalty Adjustment Act was enacted?

Danzer & Co. v. Gulf & Ship Island R. R. Co., 268 U. S. 633, was a case in which the Interstate Commerce Com-

mission attempted to apply a section of the Transportation Act of 1920 retroactively so that a claimant would be permitted to sue certain carriers, despite the fact that under a statute of limitations their liability was destroyed. The Court held, speaking by Mr. Justice Butler, at p. 637:

> "Section 206(f) will not be construed retroactively to create liability. To give it that effect would be to deprive defendant of its property without due process of law in contravention of the Fifth Amendment."

Coombes v. Getz, 285 U. S. 434, involved a provision of the California Constitution that directors of corporations should be liable to the creditors for all moneys embezzled or misappropriated by the officers. This Court held that a repeal of the provision while creditors were suing to enforce their right against a director could not destroy or impair that right. Speaking by Mr. Justice Sutherland, the Court said at pp. 442 and 448:

> "The right of this petitioner to enforce respondent's liability had become fully perfected and vested prior to the repeal of the liability provision. His cause of action was not *purely* statutory. It did not arise upon the constitutional rule of law, but upon the contractual liability created in pursuance of the rule. Although the latter derived its being from the former, it immediately acquired an independent existence competent to survive the destruction of the provision which gave it birth. The repeal put an end to the rule for the future, but it did not and could not destroy or impair the previously vested right of the creditor (which in every sense was a property right, *Ettor v. Tacoma*, 228 U. S. 148, 156; *Pritchard v. Norton*, 106 U. S. 124, 132) to enforce

his cause of action upon the contract. *Ettor v. Tacoma, supra; Hawthorne v. Calef,* 2 Wall. 10; *Steamship Co. v. Joliffe,* 2 Wall. 450; *Ochiltree v. Railroad Co.,* 21 Wall. 249, 252-253; *Harrison v. Remington Paper Co.,* 140 Fed. 385, 390 *et seq.; Knickerbocker Trust Co. v. Myers,* 133 Fed. 764, 767.

* * * * * * *

It is settled by decisions of this and other federal courts (*Ettor v. Tacoma,* and cases cited in connection therewith, *supra*) that, upon the facts here disclosed, a contractual obligation arose; and the right to enforce it, having become vested, comes within the protection of both the contract impairment clause in Art. 1, § 10, and the due process of law clause in the Fourteenth Amendment, of the Federal Constitution."

Other cases which condemn the retroactive application of legislation so as to deprive persons of rights vested before its enactment are *Osborn v. Nicholson,* 13 Wall. 654, 662; *Railroad Retirement Board v. Alton R. R. Co.,* 295 U. S. 330, 349-350, 354; *Asiatic Petroleum Co. v. Insular Collector,* 297 U. S. 666, 671.

Taxation, which is imposed in return for protection afforded by the sovereign, may frequently be retroactive. In this case the tax is the compensation paid by the subject for a benefit previously received. But even taxes may be held invalid under the due process clauses of the Fifth and Fourteenth Amendments as arbitrary if they are imposed retroactively on transactions as to which the taxpayers could not foresee that by engaging in them they would become liable for the taxes. *Nichols v. Coolidge,* 274 U. S. 531; *Blodgett v. Holden,* 275 U. S. 142; *Untermyer v. Anderson,* 276 U. S. 440; *Coolidge v.*

Long, 282 U. S. 582. See also *Levy v. Wardell,* 258 U. S. 542, 544-545; *Helvering v. Helmholz,* 296 U. S. 93, 97-98; *White v. Poor,* 296 U. S. 98, 102.

The prohibition of laws impairing the obligation of contracts in Article I, Section 10, of the Constitution is of course directed to State action and not to Congressional action, and yet it is clear, as Mr. Justice Sutherland said, delivering the opinion of the Court in *Continental Illinois Nat. Bank & Trust Co. v. Chicago, etc. Ry. Co.,* 294 U. S. 648, at p. 680, that Congress is "without power to impair the obligation of contracts by laws acting directly and independently to that end," *Cf. Perry v. United States,* 294 U. S. 330, 350-351. Between the due process clause and the obligation of contracts clause there is a close parallel. They derive from certain general principles which were expressed in the first decade under the Constitution in *Calder v. Bull,* 3 Dall. 386, by Mr. Justice Chase, at pp. 388-389:

> "The legislature may enjoin, permit, forbid and punish; they may declare new crimes; and establish rules of conduct for all its citizens in future cases; they may command what is right, and prohibit what is wrong; but they cannot change innocence into guilt; or punish innocence as a crime; or violate the right of an antecedent lawful private contract; or the right of private property. To maintain that our federal, or state legislature possesses such powers, if they had not been expressly restrained; would, in my opinion, be a political heresy, altogether inadmissible in our free republican governments."

It is submitted therefore that the following cases, condemning state legislation because of impairment of the obligation of contracts, are pertinent to the present

inquiry: *Fletcher v. Peck*, 6 Cranch 87, 135-136; *Von Hoffman v. City of Quincy*, 4 Wall. 535, 552-554; *Edwards v. Kearzey*, 96 U. S. 595, 600, 602; *Worthen Co. v. Kavanaugh*, 295 U. S. 56, 60.

Government's Cases on Retroactivity.

The Government, in its brief (pp. 67-70), relied on *Calhoun v. Massie*, 253 U. S. 170; *Norman v. Baltimore & Ohio R. R. Co.*, 294 U. S. 240; and *Philadelphia, etc. R. R. Co. v. Schubert*, 224 U. S. 603, in support of its contention that the Act may properly apply to royalties accruing prior to its passage.

In *Calhoun v. Massie, supra*, the defendant had employed the plaintiff as his attorney to prosecute a claim against the Government for property taken during the Civil War and agreed to pay him a sum equal to fifty per cent. of the amount which might be collected. The plaintiff prosecuted the defendant's claim, which was allowed and for which an appropriation was made by an Act which provided that no part of any item appropriated in excess of twenty per cent. should be paid to or received by any agent or attorney on account of services rendered in connection with the claim, and made it a misdemeanor for any agent or attorney to receive any sum exceeding that part of any item appropriated on account of such services, any contract to the contrary notwithstanding. The Government paid twenty per cent. of the claim to the plaintiff, the other eighty per cent. to the defendant. The plaintiff brought suit in a state court to recover a further sum equal to thirty per cent. of the claim. A demurrer to his declaration was sustained against a contention that the Act of Congress deprived him of liberty and property guaranteed by the Fifth Amendment. This Court, by five judges to four,

affirmed the judgment, saying by Mr. Justice Brandeis at p. 176:

> "At the time when the contract was entered into there was no legislation general or special which conferred upon Massie any right of recovery even if he should establish to the satisfaction of Congress that his claim was equitable. A statute making an appropriation to pay the claim was thus a condition precedent to liability on the part of Massie to Calhoun; and the thing contracted for was Calhoun's aid in securing its enactment. The aid was to be given by representing Massie before the Court of Claims. But both of the parties knew that, although Calhoun might have success before the Court of Claims, Congress would still be free to refuse both to recognize the claim as an equitable one and to make an appropriation for its payment. They also knew that if it concluded to grant relief, Congress was free to do so upon such conditions as it deemed proper."

In the *Calhoun* case there was not, as in the case at bar, the taking away from a private party of a right to recover an amount that was due when the act was passed. Before the act was passed there was no right on the part of the plaintiff to recover anything under his contingent fee contract; and the very statute that gave him the right to recover under that contract imposed a limitation upon his recovery. He had to take the bitter with the sweet. Moreover, there was of course no taking of any part of his right for the benefit of the United States, and he could not, like the petitioner in the case at bar, claim just compensation for property taken for public use.

Norman v. Baltimore & Ohio R. R. Co., supra, and *Philadelphia, etc. R. R. Co. v. Schubert, supra,* are sufficiently distinguished from the case at bar in our reply brief (pp. 12-14); but we may add to what is said there that *Winfree v. Northern Pacific Ry. Co.,* 227 U. S. 296, demonstrates that the Employers' Liability Act, the act enforced in the *Schubert* case, had no retroactive effect to impose liability by reason of facts that had occurred before its enactment.

The short distinction of all of these cases relied on by the Government to sustain its claim of retroactive application of the Royalty Adjustment Act is that in none of them did the Government take private property for public use without just compensation. As Mr. Justice Holmes said, speaking for the Court in *Pennsylvania Coal Co. v. Mahan,* 260 U. S. 393, at p. 415, "while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking." It does not help the Government's argument to call the Royalty Adjustment Act a regulatory act, for the regulation goes so far as to take the petitioner's right to royalties. The interference with private contracts which is permitted to the Government as an incident of a general public policy is denied to the Government when its effect is to take private contract rights without compensation. It is only in the case of a general public policy that Congress can effect any interference with private contract rights. When Congress takes private property without compensation it is not effectuating any general public policy; *Perry v. United States,* 294 U. S. 330, shows that public policy is directly contrary to such a taking.

May we add that if a contract to pay dollars in gold coin is subject to "a congenital infirmity" (*Norman v.*

Baltimore & Ohio R. R. Co., supra, at p. 308), such a contract is clearly distinguished from a contract to pay royalties to a patentee? "That a patent is property, protected against appropriation both by individuals and by government, has long been settled": *Hartford-Empire Co. v. United States,* 323 U. S. 386, at p. 415. And see fifteen other cases in this Court cited in our original brief (pp. 5-8).

The Act of 1910.

The Government has attempted to make some point of the fact that several decades before the Act in question was enacted the Act of June 25, 1910, 36 Stat. 851, 35 U.S.C. §68, and its amendment of 1918, relating to the expropriation of a license to use an *unlicensed* invention, were passed, and asserts that therefore patentees "were not entitled to assume that Congress would continue to allow agreements between private parties to fix * * * excessive charges to the Government for wartime use of the invention" (brief for the United States, p. 40). The Government neglects to state that the Act of 1910 as amended provides for the use for the benefit of the Government of unlicensed inventions, something quite distinct from the adjustment of royalties under license contracts. Moreover, that Act allowed the patentee to sue for just compensation whether the use was authorized or not. Does the fact that a mortgagee knows that real property can be taken by the Government under many statutes by the exercise of the right of eminent domain mean that his contractual right to interest on the mortgage is subject to some peculiar infirmity? Such a proposition is no more absurd than that advanced by the Government concerning the Royalty Adjustment Act.

The Royalty Adjustment Act should not be construed retroactively to apply to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act.

We submit that we have shown that if the Act is construed as applying to royalties due before its enactment it is unconstitutional under the Fifth Amendment. It seems to us, however, that there is no occasion for the Court to reach this question. A retrospective construction of the Act so as to make it apply to such royalties is not justified by its wording.

The Act is Prospective.

The Government in its argument for a retroactive construction points to Section 7, the pertinent portion of which reads as follows:

> "This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof."

It will be noted that the retroactive language does not refer to the period *before the enactment of the Act,* but to the period *before the date of the notice* that royalties are believed to be unreasonable or excessive.

When we turn to Section 1 of the Act we find that it is to take effect only from the date of its enactment, for it states that "whenever an invention, whether patented or unpatented, *shall* be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder," the royalties may be adjusted. The Act says nothing about inventions which in the *past* had been manufactured, used, sold, or otherwise disposed of for the United States.

Section 1 and Section 7 do not conflict in any way. It is obvious from the two sections that Congress intended that the Act should apply to royalties which were due for uses under the license after the date of the Act and which were not paid before the effective date of the notice. Congress desired that royalties accruing during the period between those dates should be subject to adjustment. It did not intend to make royalties that accrued before the enactment of the Act subject to adjustment.

If Congress had intended to adjust royalties due before the enactment of the Act, why in Section 2, in allowing compensation to the licensor, did it provide compensation, "taking into account the conditions of wartime production"? In the case at bar, as in many other cases that must have been in the contemplation of Congress during the first year of the war, there were royalties unpaid at the date of enactment of the Act which had become due before the United States was at war. "Wartime production" obviously was not a phrase applicable to all cases of royalties due for manufacture prior to the enactment of the Act. On the other hand, it was applicable to all cases of royalties due for manufacture after the passage of the Act and until six months

after the termination of the war. It would seem clear that Congress contemplated that the Act would cover only the latter class of royalties.

Cases Against Retroactive Application.

Since the Act does not specifically state that it is to be applied retroactively to royalties due before its enactment, it cannot be held to do so, under a rule of construction which was laid down as early as 1806.

Mr. Justice Paterson, in *United States v. Heth,* 3 Cranch 399, said at p. 413:

> "Words in a statute ought not to have a retrospective operation, unless they are so clear, strong and imperative, that no other meaning can be annexed to them, or unless the intention of the legislature cannot be otherwise satisfied. This rule ought especially to be adhered to, when such a construction will alter the pre-existing situation of parties, or will affect or interfere with their antecedent rights, services and remuneration; which is so obviously improper, that nothing ought to uphold and vindicate the interpretation, but the unequivocal and inflexible import of the terms, and the manifest intention of the legislature."

Mr. Chief Justice Marshall, delivering the opinion of the Court in *Reynolds v. McArthur,* 2 Pet. 417, said at p. 434:

> "It is a principle which has always been held sacred in the United States, that laws by which human action is to be regulated, look forwards, not backwards; and are never to be construed retrospectively, unless the language of the act shall render such construction indispensable. No words are

found in the act of 1818 which render this odious construction indispensable."

Mr. Justice Daniel, delivering the opinion of the Court in *Murray v. Gibson,* 15 How. 421, said at p. 423:

> "As a general rule for the interpretation of statutes, it may be laid down, that they never should be allowed a retroactive operation where this is not required by express command or by necessary and unavoidable implication. Without such command or implication they speak and operate upon the future only. Especially should this rule of interpretation prevail, where the effect and operation of a law are designed, apart from the intrinsic merits of the rights of parties, to restrict the assertion of those rights."

Does not this language particularly fit the case at bar, where the assertion of the petitioner's rights is so restricted that if the Government has its way they will be taken away altogether?

Southwestern Coal Co. v. McBride, 185 U. S. 499, involved the question whether an Act of Congress known as the Curtis Act operated to deprive the lessors of coal mines in the Choctaw Nation of the royalties due and owing to them for coal mined prior to the date of the approval of the Act. The Act provided that it should be unlawful for any person after its passage (with exceptions not material) to receive any royalty on coal or any other kind of property belonging to any tribe in the Indian Territory, or for anyone to pay to any individual any such royalty, but such royalties thereafter payable to the tribe should be paid into the Treasury of the United States to the credit of the tribe. The Court held that the Act did not deprive the lessors of the royalties

due and owing prior to its approval, saying, in a unanimous opinion by Mr. Justice White, at pp. 503-504:

"On the part of the appellants it is contended that the section in question is retrospective in its operation and inhibits the collection of royalties due and owing at the time of the approval of the Curtis Act, even though such royalties, had the statute in question not been passed, might lawfully have been collected by the lessors to whom it had been agreed the same should be paid. The Circuit Court of Appeals, however, sustained the contention that the provisions of the section in question had only a prospective operation, and in so doing we think no error was committed. We adopt the reasoning of the court below on the subject. The court said (104 Fed. Rep. 473):

'The function of the legislature is to prescribe rules to operate upon the actions and rights of citizens in the future. While, in the absence of a constitutional inhibition, the legislature may give to some of its acts a retrospective operation, the intention to do so must be clearly expressed, or necessarily implied from what is expressed; and, assuming the legislature to possess the power, its act will not be construed to impair or destroy a vested right under a valid contract unless it is so framed as to preclude any other interpretation. If Congress had intended to deprive lessors of the royalties due and owing to them at the date of the act it would have used appropriate language to express that intention, and would necessarily have made some provision for the disposition of such royalties. But it is clear from the language of the act that it does not deal with royalties already paid, or already due

> and owing to lessors under leases for coal already mined. * * * Congress, by the Curtis Act, neither attempted nor intended to interfere with the rights of lessors to royalties due them under their leases at the date of the passage of the act.'"

Shwab v. Doyle, 258 U. S. 529, involved the Revenue Act of 1916, which, in part, taxed the transfer of net estates

> "to the extent of any interest therein of which the decedent has at any time made a transfer, or with respect to which he has created a trust, in contemplation of or intended to take effect in possession or enjoyment at or after his death, except in case of a bona fide sale for a fair consideration in money or money's worth. Any transfer of a material part of his property in the nature of a final disposition or distribution thereof, made by the decedent within two years prior to his death without such a consideration, shall, unless shown to the contrary, be deemed to have been made in contemplation of death within the meaning of this title; * * *"

The Court held that the Act did not apply to a gift in trust consummated before its passage, saying by Mr. Justice McKenna at p. 534:

> "The initial admonition is that laws are not to be considered as applying to cases which arose before their passage unless that intention be clearly declared. 1 Kent 455; *Eidman v. Martinez*, 184 U. S. 578; *White v. United States*, 191 U. S. 545; *Gould v. Gould*, 245 U. S. 151; Story, Const., § 1398. The comment of Story is, 'retrospective laws are, indeed, generally unjust; and, as has been forcibly said,

neither accord with sound legislation nor with the fundamental principles of the social compact.'

"There is absolute prohibition against them when their purpose is punitive; they then being denominated *ex post facto* laws. It is the sense of the situation that that which impels prohibition in such case exacts clearness of declaration when burdens are imposed upon completed and remote transactions, or consequences given to them of which there could have been no foresight or contemplation when they were designed and consummated."

Since this Court construed the language of the Estate Tax Act of 1916 not to operate retrospectively, the Royalty Adjustment Act should be construed not to apply to royalties accrued at the time of its passage. The retroactive sentence in Section 7 can easily be interpreted as referring only to the time between the passage of the Act and the notice sent to a licensor.

In the latest case dealing with the subject the Court quite as clearly followed the rule against the application of the statute involved in the case at bar to royalties due before its enactment as it has done for the past one hundred and forty years. In *Claridge Apartments Co. v. Commissioner of Internal Revenue,* 323 U. S. 141, the Court said, in a unanimous opinion by Mr. Justice Rutledge, at p. 164:

"Retroactivity, even where permissible, is not favored, except upon the clearest mandate. It is the normal and usual function of legislation to discriminate between closed transactions and future ones or others pending but not completed. The discrimination which the Government fears will follow from acceptance of the taxpayer's view admittedly

will result. But it is one consistent with the normal consequences of legislation in the drawing of a line between the past or the present and the future."

To a like effect are the following cases: *Ladiga v. Roland,* 2 How. 581, 589; *McEwen v. Den,* 24 How. 242, 244; *Harvey v. Tyler,* 2 Wall. 328, 347; *United States v. Alexander,* 12 Wall. 177, 179; *Sohn v. Waterson,* 17 Wall. 596, 598-599; *Auffm'ordt v. Rasin,* 102 U. S. 620, 622-623; *Chew Heong v. United States,* 112 U. S. 536, 559; *United States v. Burr,* 159 U. S. 78, 82-83; *White v. United States,* 191 U. S. 545, 552; *Herrick v. Boquillas Land and Cattle Co.,* 200 U. S. 96, 102; *United States v. American Sugar Refining Co.,* 202 U. S. 563, 576-577; *United States Fidelity and Guaranty Co. v. United States,* 209 U. S. 306, 314; *Winfree v. Northern Pacific Ry. Co.,* 227 U. S. 296, 301; *Union Pacific R. R. Co. v. Laramie Stock Yards Co.,* 231 U. S. 190, 199; *Cameron v. United States,* 231 U. S. 710, 720; *Holt v. Henley,* 232 U. S. 637, 639-640; *Lynch v. Turrish,* 247 U. S. 221, 230; *Levy v. Wardell,* 258 U. S. 542, 544; *Knox v. McElligott,* 258 U. S. 546, 548-549; *Addy Co. v. United States,* 264 U. S. 239, 244-245; *Fullerton-Krueger Lumber Co. v. Northern Pacific Ry. Co.,* 266 U. S. 435, 437; *Lewellyn v. Frick,* 268 U. S. 238, 251-252; *United States v. St. Louis, etc. Ry. Co.,* 270 U. S. 1, 3, 4; *United States v. Magnolia Petroleum Co.,* 276 U. S. 160, 162-163; *Russell v. United States,* 278 U. S. 181, 187-188; *Brewster v. Gage,* 280 U. S. 327, 337; *Miller v. United States,* 294 U. S. 435, 439; *Hassett v. Welch,* 303 U. S. 303, 314; *Colgate-Palmolive-Peet Co. v. United States,* 320 U. S. 422, 424.

In view of the overwhelming body of authority condemning the retroactive application of statutes so as to take away pre-existing rights, we submit that the Roy-

alty Adjustment Act should not be construed to apply to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act. If the Court should hold that the Act should be so construed, we submit that as so applied it would be unconstitutional under the due process clause of the Fifth Amendment.

1(b). The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the promulgation of the departmental royalty order.

Devices Delivered Before Promulgation of Order.

Turning now to the royalties which became due between the date of the Act's passage and the date of the Royalty Adjustment Order, but were not paid at the date of the Order, little more need be said than what has already been said concerning royalties due before the enactment of the Act. The right to these later royalties was completely vested before the order sought to affect it. Even under the Government's "new license" and "war-powers regulation" theories, the taking of this right also was simply the taking of a right to money. As in the case of a taking of royalties accrued before the Act's passage, the taking of these royalties pursuant to the Act and Order was a violation not only of the just compensation clause but also of the due process clause of the Fifth Amendment. All that has already been said in this brief, except for the immediately preceding sec-

tion as to non-retroactive construction of the Act, applies equally well to these royalties.

It cannot be contended that the fact that the Act had been passed before the right to these royalties accrued makes the right any the less certain, absolute and vested. The Act, in Section 1, attempts to regulate the licensor's reward where there are royalties "the rates or amounts of which are *believed* to be unreasonable or excessive by the head of the department or agency * * *" (Italics ours.) Until the department head issues his order the licensor has no way of knowing what belief, if any, the department head holds concerning his royalty rate. In practice, indeed, the department head (or his authorized delegate) will ordinarily hold no belief on the matter until called upon to consider and decide upon a proposed reduction of royalties. Regulation based upon a belief of unreasonableness or excessiveness and affecting transactions taking place at a time when such belief was unascertainable and as yet unformed is just as retroactive and improper as the regulation of royalties which accrued before the passage of the Act itself. The Royalty Adjustment Act should not be permitted to accomplish such regulation, which is much broader than the regulation attempted by any of the wartime price-fixing acts.

Congress's Distinction as to Date of Notice.

It would appear, furthermore, that Congress did not intend that the Act should apply to royalties due at the time of the notice as to belief of unreasonableness or excessiveness of royalties if it could not apply constitutionally to royalties due at the time of enactment. In Section 7, the applicability of the Act is stated in two separate sentences. The first sentence applies it to

royalties on supplies, equipment, or materials to be delivered *after* the effective date of the *notice*. The second sentence applies it to royalties on supplies, equipment, or materials already delivered, and which have not been paid, *prior to* the effective date of the *notice*. The reason for putting these applicability provisions in two sentences instead of one was obviously to save the first, under the separability clause in Section 10, in case the second should be unconstitutional. Congress thus indicated its desire to have the applicability of the Act to royalties between the date of enactment and the date of the notice stand or fall on the constitutionality or unconstitutionality of the application of the Act to royalties due at the date of enactment. If it had not wished to assent to this it would have used three sentences instead of two: one would have covered royalties from the date of the notice; another would have covered royalties from the date of enactment to the date of the notice; and the third would have covered royalties before the date of enactment.

Congress obviously considered it more just to draw the line, if a line were to be drawn, at the date of the notice rather than at the date of enactment. Evidence of this is found in the fact that when the original bill was amended to include the two sentences, one prospective and the other retrospective, "the effective date of this Act" was used as the division line between their respective coverages: Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d Sess.), pp. 6-7, 9. This was changed, in the bill ultimately enacted, to "the effective date of the notice": H. Rep. No. 2602 on S. 2794 (77th Cong., 2d Sess.), p. 2.

We submit, then, that the Act is unconstitutional if applied to royalties on articles delivered before the date

of the Order. But even if constitutional in this respect, it would still not apply to royalties on articles delivered before the date of the notice, because of the unconstitutionality of the application of the Act to pre-enactment royalties.

2. Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, does not save to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent.

If, as we contend, the Act is unconstitutional, Section 2 of the Act falls with it. Its provisions for review of administrative fixing of royalties implement Section 1 and depend upon it. The Act being unconstitutional, petitioner's right to royalties is to be enforced against respondent, Timken-Detroit Axle Company, under the license contract.

Recovery Permissible Under the Act.

Section 2 cannot preserve and secure petitioner's rights because it contains within itself the very terms which like a cancer invalidate the whole Act. In providing for suit against the United States by an aggrieved licensor in the Court of Claims or a district court, the Act does not permit recovery of "royalties stipulated to be paid" under the contract but expressly provides for recovery on an entirely different basis. It permits petitioner to recover only "such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, *taking*

into account the conditions of wartime production." (Italics ours.) And it further states: "In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise."

If the Act were valid, the suit under Section 2 would be the only remedy available to petitioner. Section 1 prohibits a suit against the licensee, and states that the "licensor's sole and exclusive remedy," as to any royalties beyond those allowed in the order, is that provided for in Section 2. And petitioner's rights against the United States could be enforced only under the exact terms of Section 2.

The one and only remedy available to the petitioner under Section 2, viz., the suit against the United States, is inadequate because it does not permit the petitioner to recover its full contracted-for royalties. It limits just compensation to what is to be fixed in view of "the conditions of wartime production." It was, in fact, intended and designed to prevent collection by petitioner of just compensation, that is, the full royalties specified,—to give it less than its royalties under the contract.

Not only may a licensor's contract right to royalties be impaired under the Act, it may be taken away altogether, and in the instant situation the Government is attempting to do just that. For Royalty Adjustment Order W-3 declared that no royalties should be paid to the licensor under its contract, and Section 2 of the Act permits the United States to raise the defense that the licensor's patents are invalid when suit is brought by the petitioner in the Court of Claims. It has long been a rule of patent law that a licensee cannot contest the

validity of the patent under which he is licensed.* But the Act directs that the United States be allowed to plead the defense of invalidity. Consequently, there is a possibility that the petitioner may be shorn of its entire contract right to royalties.

Cases on Suits Against United States.

That the Court of Claims cannot give petitioner anything more than Section 2 allows clearly appears from a long line of cases which hold that suits against the Government can succeed only subject to the restrictions and limitations imposed by the Act of Congress permitting the remedy in derogation of sovereign immunity.

In *De Groot v. United States,* 5 Wall. 419, a claim against the Government had been referred by Act of

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* See cases cited in our original brief as *amici curiae* (p. 30). In the Government's brief on the original argument (pp. 48-49) reliance is placed on *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173, for the proposition that estoppel of the respondent to plead invalidity of the patent should not be allowed to thwart the purpose of the Royalty Adjustment Act. But it is to be noted that *the United States under that Act does not assume the patent to be invalid, but the contrary,* in requiring the full amount of the royalties stipulated for in the contract to be paid either to the licensor or into the Treasury of the United States. It is only when the licensor sues the United States for just compensation for what has been taken from him by eminent domain that the United States endeavors to keep the royalties taken by it on the strength of an argument of invalidity of the patent. It is enough here to show that the licensee, as Judge Kirkpatrick held in the District Court, "is estopped to contest the validity of the patent" (R. 34). When the United States takes a contract right to recover royalties free from any defense of invalidity of the patent, it should give the value of that right.

Congress to the Secretary of War. He had made an award beyond the limits prescribed by Congress, and that body by resolution had cut off his authority and empowered the Court of Claims to make a new award. Mr. Justice Miller, delivering the Court's opinion affirming the smaller award made by the Court of Claims, said at pp. 431-433:

"If, therefore, the Court of Claims has the right to entertain jurisdiction of cases in which the United States is defendant, and to render judgment against that defendant, it is only by virtue of acts of Congress granting such jurisdiction, and it is limited precisely to such cases, both in regard to parties and to the cause of action, as Congress has prescribed.

"It is true that ordinarily, when we seek for the foundation of this jurisdiction, we look to the general laws creating the court, and defining causes of which it may have cognizance. But it is equally true that whenever Congress chooses to withdraw from that jurisdiction any class of cases which had before been committed to its control, as it has done more than once, it has the power to do so, or to prescribe the rule by which such cases may be determined. Its right to do this in regard to any particular case, as well as to a class of cases, must rest on the same foundation; and no reason can be perceived why Congress may not at any time withdraw a particular case from the cognizance of that court, or prescribe in such case the circumstances under which alone the court may render a judgment against the government.

* * * * * * *

"The case being thus transferred from the Secretary of War to the Court of Claims, with a repeal of the resolution under which the Secretary had acted, must be considered as coming into that court with the limitations prescribed by that resolution. This shows very clearly that Congress intended that no judgment should be rendered against the government on the award of the Secretary of War, but that the examination to be made by the Court of Claims should be free from that embarrassment. Could that court entertain jurisdiction of the case, and violate this requirement?

"It is said by claimant that the case did not come into that court under that resolution, but was brought there by his own petition. But, however it may have come there, the rule prescribed by Congress adheres to it, if Congress had the right to prescribe it. Entertaining no doubt of the power of the legislative body to define the terms on which judgments may be rendered against the government as to classes of cases, or as to individual cases, we think the Court of Claims was bound to accept the resolution of February, 1861, as the law of the case in that court. The effect of this resolution on the award, if it should ever come in question in a court not limited by the restrictions which govern that court, we need not decide."

Schillinger v. United States, 155 U. S. 163, was a suit in the Court of Claims against the United States for the use of a patented invention by a government contractor. Mr. Justice Brewer, delivering the opinion of the Court, said at p. 166:

"The United States cannot be sued in their courts without their consent, and in granting such

consent Congress has an absolute discretion to specify the cases and contingencies in which the liability of the Government is submitted to the courts for judicial determination. Beyond the letter of such consent, the courts may not go, no matter how beneficial they may deem or in fact might be their possession of a larger jurisdiction over the liabilities of the Government."

The Court held that the claim sounded in tort and therefore recovery was not authorized under the Tucker Act of March 3, 1887, 24 Stat. 505, c. 359, which gave the Court of Claims jurisdiction over "All claims founded upon the Constitution of the United States or any law of Congress, except for pensions, or upon any regulation of an Executive Department, or upon any contract, expressed or implied, with the Government of the United States, or for damages, liquidated or unliquidated, in cases not sounding in tort, in respect of which claims the party would be entitled to redress against the United States either in a court of law, equity, or admiralty if the United States were suable * * *." In interpreting this provision the opinion said at p. 168:

"It is said that the Constitution forbids the taking of private property for public uses without just compensation; that therefore every appropriation of private property by any official to the uses of the government, no matter however wrongfully made, creates a claim founded upon the Constitution of the United States and within the letter of the grant in the act of 1887 of the jurisdiction to the Court of Claims. If that argument be good, it is equally good applied to every other provision of the Constitution as well as to every law of Congress. This prohibition of the taking of private property

for public use without compensation is no more sacred than that other constitutional provision that no person shall be deprived of life, liberty, or property without due process of law. Can it be that Congress intended that every wrongful arrest and detention of an individual, or seizure of his property by an officer of the government, should expose it to an action for damages in the Court of Claims? If any such breadth of jurisdiction was contemplated, language which had already been give a restrictive meaning would have been carefully avoided."

In *Price v. United States,* 174 U. S. 373, a case of claims for damage done by Indian tribes, the Court said by Mr. Justice Brewer at pp. 375-376:

"The right of the plaintiff to recover is a purely statutory right. The jurisdiction of the Court of Claims cannot be enlarged by implication. It matters not what may seem to this court equitable, or what obligation we may deem ought to be assumed by the Government, or the Indian tribe, whose members were guilty of this depredation, we cannot go beyond the language of the statute and impose a liability which the Government has not declared its willingness to assume. It is useless to cite all the authorities, for they are many, upon the proposition. It is an axiom of our jurisprudence. The Government is not liable to suit unless it consents thereto, and its liability in suit cannot be extended beyond the plain language of the statute authorizing it."

Mr. Justice Holmes, delivering the opinion of the Court in *Reid v. United States,* 211 U. S. 529, said at p. 538:

"Suits against the United States can be maintained, of course, only by permission of the United States, and in the manner and subject to the restrictions that it may see fit to impose."

Mr. Justice Brandeis, delivering the opinion of the Court in *United States v. Babcock,* 250 U. S. 328, said at p. 331:

"These general rules are well settled: (1) That the United States, when it creates rights in individuals against itself, is under no obligation to provide a remedy through the courts. *United States ex rel. Dunlap v. Black,* 128 U. S. 40; *Ex parte Atocha,* 17 Wall. 439; *Gordon v. United States,* 7 Wall. 188, 195; *DeGroot v. United States,* 5 Wall. 419, 431-433; *Comegys v. Vasse,* 1 Pet. 193, 212. (2) That where a statute creates a right and provides a special remedy, that remedy is exclusive. *Wilder Manufacturing Co. v. Corn Products Refining Co.,* 236 U. S. 165, 174-175; *Arnson v. Murphy,* 109 U. S. 238; *Barnet v. National Bank,* 98 U. S. 555, 558; *Farmers' & Mechanics' National Bank v. Dearing,* 91 U. S. 29, 35."

Like the foregoing cases, the following show that petitioner's remedy under the Royalty Adjustment Act is limited to the recovery, under the exact terms of Section 2, of what we have demonstrated in our original brief to be a fatally insufficient amount: *Nichols v. United States,* 7 Wall. 122, 126; *Elgee Cotton Cases,* 22 Wall. 180, 185-186; *McElrath v. United States,* 102 U. S. 426, 440; *United States v. Lee,* 106 U. S. 196, 205; *Arnson v. Murphy,* 109 U. S. 238, 243; *Great Falls Mfg. Co. v. Attorney General,* 124 U. S. 581, 598-600; *Juragua Iron Co. v. United States,* 212 U. S. 297, 302-303, 309; *Banco*

Mexicano de Commercio e Industria v. Deutsche Bank, 263 U. S. 591, 602-603; *Davis v. Donovan*, 265 U. S. 257, 263; *Nassau Smelting & Refining Works v. United States*, 266 U. S. 101, 107-108; *Luckenbach S. S. Co. v. United States*, 272 U. S. 533, 536; *Munro v. United States*, 303 U. S. 36, 41; *United States v. Sherwood*, 312 U. S. 584, 586.

The cases discussed and cited above support the following conclusions:

(1) The United States is amenable to suit only to the extent that it waives its immunity and only subject to the conditions which it attaches to such waiver.

(2) In the Court of Claims recovery can be had only within the specific limits prescribed by the act which authorizes recovery.

(3) When Congress in a statute creates a right against the United States and provides a special remedy, that remedy is exclusive.

The Royalty Adjustment Act takes away petitioner's right of action against Timken and gives it instead a different right, the right to sue in the Court of Claims. The remedy which it gives is exclusive. This exclusive remedy we have shown to be inadequate under the Fifth Amendment. The Royalty Adjustment Act gives a licensor something different from and far less than his contract rights when it takes the benefit of these rights for the United States. Since the Court of Claims cannot give a full and adequate remedy, the Act fails to satisfy the requirements of the Fifth Amendment.

It will hardly be argued that the Court of Claims can disregard the limits set by the Royalty Adjustment Act upon recovery by the petitioner and give it under some other act, such as the Tucker Act, the full com-

pensation guaranteed to it by the Constitution. No case holds that the Court of Claims can do so. In *United States v. Causby*, 66 S. Ct. 1062, it is true, that court was held to have jurisdiction to allow recovery for a taking of land by frequent flying of planes over it at low levels by the United States, and Mr. Justice Douglas, delivering the opinion of the Court, said at pp. 1068-1069:

> "If there is a taking, the claim is 'founded upon the Constitution' and within the jurisdiction of the Court of Claims to hear and determine. See Hollister v. Benedict & Burnham Mfg. Co., 113 U. S. 59, 67, 5 S. Ct. 717, 721, 28 L.Ed. 901; Hurley v. Kincaid, 285 U. S. 95, 104, 52 S. Ct. 267, 269, 76 L.Ed. 637; Yearsley v. W. A. Ross Construction Co., 309 U. S. 18, 21, 60 S. Ct. 413, 415, 84 L.Ed. 554."

It will be observed from an examination of each of the cases cited in the preceding sentence that the Court held that the Government had impliedly promised to pay just compensation for the property taken and that this implied promise was the basis for the remedy by suit in the Court of Claims. In the case at bar, however, by the Royalty Adjustment Act the Government has not promised to pay just compensation, but only just compensation taking into account conditions of wartime production, and subject to defenses which could not be asserted by the licensee. A promise to pay just compensation without restriction cannot be implied in the teeth of the restrictions imposed by the Act upon the payment of compensation.

The opinion in the *Causby* case cannot be construed to mean that under the Tucker Act an implied contract is not the necessary basis for a suit for compensation

for the taking of property. Certainly a tortious taking could not be the basis for such a suit. We submit that there was no intent to overrule *sub silentio* the doctrine of *Schillinger v. United States,* 155 U. S. 163, and the long line of cases following it, some of which are cited in the opinion of the Court, by Mr. Justice Brandeis, in *United States v. North American Transportation & Trading Co.,* 253 U. S. 330, at 335*.

We believe that what was meant in the *Causby* case by the treatment of the point as to jurisdiction—a point not fully argued in the briefs or elaborated upon in the opinion of the Court—was this: In that case the circumstances were such that if a taking existed there would be an implied contract to pay for the land, and therefore the owners of the land taken could enforce their claim "founded upon the Constitution" under the Tucker Act. The Court did not hold that the Tucker Act gives a right to recover for *any* denial of the guaranties of the Constitution. In any event, the decision

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* See also *Gibbons v. United States,* 8 Wall. 269, 274; *Langford v. United States,* 101 U. S. 341, 343-346; *Hill v. United States,* 149 U. S. 593, 598-599; *United States v. Berdan Fire-Arms Mfg. Co.,* 156 U. S. 552, 566; *Belknap v. Schild,* 161 U. S. 10, 17; *Russell v. United States,* 182 U. S. 516, 530; *Ribas y Hijo v. United States,* 194 U. S. 315, 323; *Harley v. United States,* 198 U. S. 229, 234; *Juragua Iron Co. v. United States,* 212 U. S. 297, 302-303, 309; *Crozier v. Krupp Aktiengesellschaft,* 224 U. S. 290, 303-304; *United States v. Societe Anonyme des Anciens Etablissements Cail,* 224 U. S. 309, 311; *Peabody v. United States,* 231 U. S. 530, 539; *Farnham v. United States,* 240 U. S. 537, 540; *Cramp & Sons Ship & Engine Bldg. Co. v. International Curtis Marine Turbine Co.,* 246 U. S. 28, 39-41; *Tempel v. United States,* 248 U. S. 121, 129-130; *Bliss Co. v. United States,* 253 U. S. 187, 190-191; *Lynch v. United States,* 292 U. S. 571, 582.

was simply an interpretation of the Act under which suit had been brought. It did not hold that the Court of Claims could disregard limitations imposed by an Act of Congress. It could not follow from this decision that if the petitioner in the case at bar were to sue in the Court of Claims it could recover more than the limited amount allowed by the Royalty Adjustment Act. The Court of Claims could let it recover only under that Act. If, as we contend, that Act is unconstitutional, it could not recover under the Tucker Act or any other Act; for, except for the Royalty Adjustment Act, petitioner's right is simply a common law right of action against Timken.

Moreover, if the petitioner should sue under the Royalty Adjustment Act in the Court of Claims or a district court, its recovery would not only be limited to less than just compensation, but the petitioner would be foreclosed from raising the question of the unconstitutionality of the Act under which it had sued. This is the obvious consequence of the cases above cited. See in particular *Great Falls Mfg. Co. v. Attorney General,* 124 U. S. 581, where the Court held that the plaintiff, by the very act of suing in the Court of Claims under an Act of Congress, voluntarily accepted the provisions of the Act and the offer of the Government to have the amount of its compensation fixed by that court. The Court said, in an opinion by Mr. Justice Harlan, at p. 600:

> "If the act of the Secretary of War in taking possession of the property was in violation of law, neither he nor his agents could rightfully hold possession against the plaintiff; in which case, the plaintiff might have stood upon its rights, under the Constitution, and invoked judicial authority for such

protection as the law would afford against the unauthorized acts of public officers. But the plaintiff chose to acquiesce in the taking of its property for public use, and to accept the offer of the Government to have the amount of compensation fixed by the Court of Claims, according to its peculiar modes of procedure."

If the Court of Claims could award the petitioner the full amount of its just compensation, the Royalty Adjustment Act would be frustrated, because the purpose of that Act is to reduce the royalties to be paid under the contract to the petitioner and to require that the amount by which they are reduced be paid to the United States. Yet to give the petitioner less than the full amount of the royalties stipulated would be unconstitutional. Since any judgment of the Court of Claims would have the effect either of rendering the Act nugatory or of unconstitutionally denying the petitioner its right to just compensation, the only way to avoid unnecessary expense and fruitless circuity of action is for this Court to pass on the question of the constitutionality of the Act. We submit that it should hold that the Act is invalid under the Fifth Amendment.

Respectfully submitted,

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FILE COPY

IN THE

Supreme Court of the United States

OCTOBER TERM, 1946

NO. 11.

ALMA MOTOR COMPANY, Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent,

UNITED STATES OF AMERICA, Intervenor.

MEMORANDUM IN REPLY TO BRIEF FOR THE UNITED STATES ON REARGUMENT.

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I.

The Constitutionality of the Royalty Adjustment Act Should Be Determined Now.

The Department of Justice contends that the constitutionality of the Royalty Adjustment Act should not be determined at the present stage of this proceeding. The basis for the contention is that "there are nonconstitutional issues undecided by the court below that may be completely dispositive of the case" (Brief for United States, p. 10).

It is curious that this position is taken on behalf of the Government.

In the motion by the United States in the Circuit Court of Appeals for leave to file a memorandum brief as *amicus curiae* the position of the Government was stated as follows (R. 97):

> "According to the allegations made by the plaintiff in this action, all the structures in question now being manufactured by the plaintiff are made solely for the United States. In these circumstances, it is believed that this appeal has been rendered presently moot by the issuance of the Royalty Adjustment Order under Public Law No. 768, since an 'actual controversy' does not now exist within the meaning of Section 400 of the Federal Declaratory Judgment Act.
>
> "It is therefore respectfully requested that this Court grant leave to the United States to file a memorandum brief as amicus curiae on the question as to whether or not the instant appeal is moot."

A similar position was taken by the Assistant Attorney General in his oral argument and that argument prevailed with the court, as is shown by the judgment (R. 129-130):

> "Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, va-

cate all or any part of the remainder of the judgment and dismiss the complaint as moot."

This judgment was vigorously defended in the brief for the United States on the original argument (pp. 9, 14, 88-89). Why the about-face? An examination of the record shows no justification for it.

When the Royalty Adjustment Order here involved was issued, the District Court had already found in favor of the Alma Motor Company as to the T-32 and T-43 cases but had held that the T-79 cases were not covered by Alma's patent. The only appeal taken was Alma's appeal from the holding as to the T-79 cases. The Timken-Detroit Axle Company moved to dismiss the appeal, complaint, and counterclaim or to dismiss the appeal and remand the cause to the District Court, on the ground that Alma had "manufactured and sold transfer cases coming within the agreement of May 16, 1938 only to or for the use of the War Department and, therefore, cannot comply with both the judgment entered in this action and said Order; and that said Order issued under Public Law 768, by the terms of said law, transfers jurisdiction of this controversy to the Court of Claims and withdraws from this Honorable Court and the District Court for the District of Delaware their jurisdiction of this controversy under the agreement of May 16, 1938, by substituting an action under section 2 of said Public Law as the sole action on said agreement of May 16, 1938 and the controversy involved in this action" (R. 55). The Circuit Court of Appeals in its opinion said (R. 113):

"Since the transfer cases manufactured by Timken on which royalty payments are claimed were all made in fulfilment of a contract with the United

> States and since the War Department's order forbade Timken to pay any royalties thereon, it follows that if the statute applies and the order was made pursuant to it, the order in this appeal should be so framed as not to pass upon what has, by events since the original trial, become moot."

The court, in order to dispose of the motion, had to pass on the constitutionality of the statute and the validity of the order made under it. It sustained the constitutionality of the statute and the validity of the order and entered the judgment which the Government once defended and now claims to be erroneous as premature.

When the Circuit Court of Appeals was confronted with the motion by the respondent and the argument of the respondent and the Government that it should decline jurisdiction of the controversy on the ground that the issuance of the Royalty Adjustment Order terminated the "actual controversy" requisite for a proceeding under the Federal Declaratory Judgment Act, it did not have the supposed option of addressing itself to the coverage question on the T-79 cases or considering the constitutionality of the Act. Under a long line of cases it had to overrule the motion if it was to go into any question on the merits.

State of Rhode Island and Providence Plantations v. Commonwealth of Massachusetts, 12 Pet. 657, by Baldwin, J., at p. 718:

> " * * * The case is now before us for consideration, on a motion by the defendant, to dismiss the bill for want of jurisdiction in the cause.
>
> "However late this objection has been made, or may be made, in any cause, in an inferior or appellate court of the United States, it must be con-

sidered and decided, before any court can move one further step in the cause; as any movement is necessarily the exercise of jurisdiction."

McNulty v. Batty, 10 How. 71, by Nelson, J., at p. 79:

"In the case of the *United States v. Boisdore's Heirs* (8 How., 121), it is said, that, as this court can exercise no appellate power over cases, unless conferred upon it by act of Congress, if the act conferring the jurisdiction has expired, the jurisdiction ceases, although the appeal or writ of error be actually pending in the court at the time of the expiration of the act.

"The cases on this point are referred to in the brief in that case, and afford full authority for the principle, if any were needed."

Ex Parte McCardle, 7 Wall. 506, by Chase, C. J., at p. 512:

"The first question necessarily is that of jurisdiction; for, if the act of March, 1868, takes away the jurisdiction defined by the act of February, 1867, it is useless, if not improper, to enter into any discussion of other questions."

Mail Co. v. Flanders, 12 Wall. 130, by Clifford, J., at p. 135:

"Where the Circuit Court is without jurisdiction it is in general irregular to make any order in the cause except to dismiss the suit, but that rule does not apply to the action of the court in setting aside such orders as had been improperly made before the want of jurisdiction was discovered."

Mansfield, etc. Ry. Co. v. Swan, 111 U.S. 379, by Matthews, J., at p. 382:

> "The rule, springing from the nature and limits of the judicial power of the United States, is inflexible and without exception, which requires this court, of its own motion, to deny its own jurisdiction, and, in the exercise of its appellate power, that of all other courts of the United States, in all cases where such jurisdiction does not affirmatively appear in the record on which, in the exercise of that power, it is called to act. On every writ of error or appeal, the first and fundamental question is that of jurisdiction, first, of this court, and then of the court from which the record comes. This question the court is bound to ask and answer for itself, even when not otherwise suggested, and without respect to the relation of the parties to it."

(The Court then discusses ten of its earlier decisions, pp. 382-386.)

Smallwood v. Gallardo, 275 U.S. 56, by Holmes, J., at p. 62:

> "The sequence of the clause in the amendment after others giving authority to grant writs of habeas corpus and mandamus shows that it puts a limit to the power of the Court. See *Dodge v. Osborn,* 240 U.S. 118, 119. That is a question of construction and common sense. *Fauntleroy v. Lum,* 210 U.S. 230, 235. Therefore when the District Court required a deposit in the registry of a sum to secure payment of the tax in dispute, the money should be returned as there is no jurisdiction to dispose of it otherwise.

"Of course it does not matter that these cases had gone to a higher Court. When the root is cut the branches fall. *McNulty v. Batty,* 10 How. 72.

"As the bills were dismissed upon the merits (with partial injunctions in *Valdes v. Gallardo* and *Finlay, Waymouth & Lee, Inc. v. Gallardo*) the decrees should be reversed and the cases sent back with directions to dismiss for want of jurisdiction."

In urging that the case at bar be remanded to the Circuit Court of Appeals for determination of the question of coverage of the T-79 cases, the Government is maintaining that that Court should determine a question as to the merits of the dispute in advance of its determination as to jurisdiction. In effect, it would have the Court determine its jurisdiction by means of an inquiry into the merits, a procedure which was held to be erroneous and improper in *Smithers v. Smith,* 204 U.S. 632, where the Court said, in an opinion by Moody, J. (pp. 645-646):

"The error into which the judge in the court below has fallen is shown by an analysis of his findings. He did not find that the land which the plaintiff claimed to recover was not of a value in excess of $2,000, but that parts of that land, which each defendant claimed that the plaintiff ought only to recover against him, were each of less than the value of $2,000. As the plaintiff alleged and the defendants denied that the defendants jointly took and held his whole lot of land, the judge, on the conceded value of the plaintiff's land, in order to have arrived at the conclusion that the case should be dismissed, must have found that the defendants had not jointly taken and held the whole of the plaintiff's land. In doing this we think he exceeded

his authority under the statute, and in determining the jurisdiction, in effect, decided the controversy between the parties upon the merits. In deciding that the defendants had not acted jointly, as the plaintiff alleged and the defendants denied, he determined not a jurisdictional fact, but an essential element of the merits of the dispute upon which the parties were at issue.

* * * * * * *

"Because the Circuit Court erred in dismissing the case for want of jurisdiction, its action must be reversed."

If the Royalty Adjustment Act is constitutional, the issuance of the order under it in this case rendered moot the controversy between Alma and Timken, including the controversy as to whether the patent covered the T-79 transfer cases, since Section 1 of the Act provides: "The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof." If the Act is constitutional, the declaratory judgment proceeding would be concerned only with a hypothetical case. The court below accordingly was bound to consider the constitutionality of the Act, and if it found the Act constitutional, to declare a lack of jurisdiction in the declaratory judgment proceeding. Similarly, as to Alma's counterclaim for royalties, if the Act is constitutional, Alma has no remedy against Timken and there would be no actual controversy as to the counterclaim. So the first question which had to be decided by the court below, even on its

own motion, was whether the Act was constitutional. If it was, it would render the cause moot and put an end to jurisdiction in the action.

If there was no jurisdiction in the action, it should have been remanded to the District Court with a direction to dismiss the complaint and counterclaim. *Board of Public Utility Commissioners v. Compania General de Tabacos,* 249 U. S. 425, 426-427, and cases cited; *Commercial Cable Co. v. Burleson,* 250 U. S. 360, 362-363; *United States v. Alaska S. S. Co.,* 253 U. S. 113, 116; *Heitmuller v. Stokes,* 256 U. S. 359, 362-363; *Brownlow v. Schwartz,* 261 U. S. 216, 217-218; *Alejandrino v. Quezon,* 271 U. S. 528, 535-536; *United States v. United States Tariff Commission,* 274 U. S. 106, 112; *United States v. Anchor Coal Co.,* 279 U. S. 812, 812-813; *Securities & Exchange Commission v. Long Island Lighting Co.,* 325 U. S. 833.

If, in spite of the authorities above cited, this Court should determine to remand the case to the Circuit Court of Appeals to determine whether the T-79 cases are covered by the patent, the necessity of deciding the constitutional question would by no means be avoided. Even if that court should hold that the T-79 cases are not covered by the patent, the petitioner would still have a judgment, entered after the passage of the Royalty Adjustment Act, determining that the T-32 and T-43 cases are covered by the patent, and these cases as well as the T-79 cases were manufactured for and sold to the United States (R. 60, 113). How is the constitutional question to be avoided with regard to these cases?

Moreover, as the Court is well aware, the question as to the constitutionality of the Act is not confined to the present litigation. See *Coffman v. Federal Labora-*

tories, 323 U. S. 325, 327. It would seem appropriate, therefore, whatever the Court's view as to the judgment entered below, that it should proceed to determine the question as to the constitutionality of the Act of Congress, just as did the Circuit Court of Appeals. The Court took this course in *Wight v. Davidson,* 181 U. S. 371, where it appeared from the record that others than the parties were concerned in the question of the constitutionality of an Act of Congress.

It is hardly necessary to add that the Government's argument (pp. 18-20) that the nonconstitutional issue should be decided first because of petitioner's "claim to royalties on transfer cases that may be manufactured for private use" is merely specious. There is no such claim. The record is clear that all the transfer cases coming within the license agreement were manufactured and sold for the use of the War Department (R. 55, 113). The only way, therefore, in which the Court can finally determine the controversy is by deciding whether the Royalty Adjustment Act and the order made thereunder are constitutional.

II.

The Petitioner Is Entitled to Just Compensation for the Taking of Its Contract Right to Royalties Against the Respondent, Which Has Properly Been Held to Be Estopped from Challenging the Validity of the Petitioner's Patent.

In addition to the arguments that the Royalty Adjustment Act is valid under the federal power of eminent domain and that it is also sustainable as a price-fixing measure under the federal war powers, which were fully answered in our briefs on the first argument of the case, the Government advances the argument that "the Act, as applied here, merely abolishes *pro tanto* the rule estopping a licensee from challenging the validity of the licensor's patent" (Brief for the United States on Reargument, p. 31), relying on *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173, and *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U. S. 249. In each of these cases the doctrine of estoppel to show that a patent was invalid was held to be inapplicable. There is nothing, however, in either of the cases to suggest that the estoppel of the licensee was not properly held by the District Court to exist in the case at bar (R. 34-36).

In the *Sola Electric Company* case the question for decision was "whether a patent licensee, by virtue of his license agreement, is estopped to challenge a price-fixing clause in the agreement by showing that the patent is invalid, and that the price restriction is accordingly unlawful because not protecied by the patent monopoly" (317 U. S. 173). The Court held (p. 177):

> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden

of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements."

But there was nothing unlawful in the agreement between the petitioner and the respondent in the case at bar, and the District Court rightly held the respondent to be estopped to show that the patent was invalid.

In the *Scott Paper Company* case the question was "whether the assignor of a patent is estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the alleged infringing device is that of a prior art, expired patent" (326 U. S. 250). The Court held "that the application of the doctrine of estoppel so as to foreclose the assignor of a patent from asserting the right to make use of the prior art invention of an expired patent, which anticipates that of the assigned patent, is inconsistent with the patent laws which dedicate to public use the invention of an expired patent" (pp. 257-258).

But the application of the doctrine of estoppel so as to foreclose the respondent from defending on the ground of invalidity of the patent here involved, where there was no question of an expired patent, is not inconsistent with the patent laws, as the District Court rightly held.

The Government asserts (p. 35) "that, even without the Act, the estoppel rule would yield to the outstanding public policy against saddling the public with royalty charges under worthless patents." But that there is no such "outstanding public policy" is demon-

strated by all the authorities. The estoppel of the licensee to contest the validity of a patent in a suit for royalties is well established as a term of the contract between the parties, and it is only when the enforcement of that contract would violate public policy that the licensee is not estopped. See *Kinsman v. Parkhurst,* 18 How. 289; *Eureka Co. v. Bailey Co.,* 11 Wall. 488; *United States v. Harvey Steel Co.,* 196 U. S. 310; *Walker on Patents,* Deller's ed., vol. 2, § 382; *Terrell on Patents,* 8th ed., pp. 259-261. When the United States takes by eminent domain the licensor's contract right to royalties, it must pay as just compensation the sum "which probably could have been obtained for an assignment of the contract" (*Brooks-Scanlon Corp. v. United States,* 265 U. S. 106, at pp. 123-124), and parties negotiating for such an assignment, of course, would take into account the estoppel of the licensee from disputing the validity of the patent.

In *Richmond Screw Anchor Co. v. United States,* 275 U. S. 331, it was held under the Act of 1910, as amended in 1918, when Congress exercised the power to take away the right of the owner of a patent to recover from a Government contractor for infringements, that Section 3477 of the Revised Statutes should not be held to avoid the assignment of the claim against the United States under that Act, since it would raise a serious question as to the constitutionality of the Act under the Fifth Amendment so to hold. The Court said, by Mr. Chief Justice Taft, at p. 345:

> "We must presume that Congress in the passage of the Act of 1918 intended to secure to the owner of the patent the exact equivalent of what it was taking away from him. It was taking away his as-

> signable claims against the contractor for the latter's infringement of his patent. The assignability of such claims was an important element in their value and a matter to be taken into account in providing for their just equivalent."

By a parity of reasoning the fact that the claim of a patentee against his licensee is not subject to the defense of invalidity of the patent is an important element in its value and a matter to be taken into account in providing its just equivalent.

The Government's brief (p. 34) refers to the Act of 1910, as amended in 1918, as if it enunciated a "public policy * * * that Government production shall not bear the cost of royalties under worthless patents." That Act did no such thing. It gave to a patent owner a right which he never possessed before, namely, a right of action against the Government to recover for its infringement of a patent. In permitting the Government to assert invalidity of the patent as a defense, the 1910 Act did not destroy any estoppel, because an infringer is not estopped to assert invalidity, never having made a contract by which he could be estopped.

Accordingly, we maintain, as we did in our original brief (pp. 5-32), that the Royalty Adjustment Act and the order made thereunder in this case violate the Fifth Amendment by taking property without just compensation, since Congress has refused to pay the value of the contract right to royalties which it has taken for the benefit of the United States, the value of that right being the amount which could be obtained for an assignment of it by an owner willing to sell it from a purchaser willing to buy it. *Brooks-Scanlon Corp. v. United States,*

265 U. S. 106, 121, 123-126; *Russian Volunteer Fleet v. United States*, 282 U. S. 481; *Jacobs v. United States*, 290 U. S. 13, 16-17; *United States v. Miller*, 317 U. S. 369, 373-374; *United States v. General Motors Corp.*, 323 U. S. 373, 377-379; and other cases cited at pp. 10-15 and p. 23 of our original brief.

III.

Counsel for the United States Should Not Be Permitted to Influence the Decision Here by Reference to Matters Not in the Record.

The brief for the United States on reargument many times (e.g., at pp. 25-26, 28-29, 30-31) attempts to influence the decision by reference to matters not in the record. In our reply brief for the appellant in *Coffman v. Breeze Corporations*, No. 71 October Term, 1944, and in our reply brief as *amici curiae* on the first argument of this case we called attention to the opinion of the Court, speaking by Mr. Justice Harlan, in *Schley v. Pullman Car Co.*, 120 U.S. 575, at p. 578:

> " * * * Notwithstanding the agreement, that the case should be heard in the court below upon the single question referred to in the stipulation, the counsel for the defendant in error states many things, which he declares to be 'incontrovertible facts,' and within the knowledge of opposing counsel, but which are wholly unsustained by anything in the record. The motion to strike out relates to those matters. The excuse given for this breach of professional propriety is 'the extreme brevity of the record.' But it is the same record upon which

> counsel for the company succeeded for his client, and which, by agreement, contained all that was to be submitted to the court. The excuse given furnishes no apology whatever for his violation of the terms of the stipulation, much less does it palliate his attempt to influence the decision here, by reference to matters not in the record, and which, he must have known, could not be taken into consideration. It is only necessary to say that the facts, *dehors* the record, which have been improperly introduced into the brief of the counsel for the defendant in error, have not in any degree influenced our determination of the case."

See also *Mitchel v. United States,* 9 Pet. 711, at p. 731; *Pacific R. R. of Missouri v. Ketchum,* 95 U.S. 1, at p. 3; *South Carolina v. Wesley,* 155 U.S. 542, at p. 544.

We respectfully refer the Court to what we said in our reply brief on the original argument (pp. 14-15), knowing that the allegations of facts *dehors* the record will not in any degree influence the Court's determination of the case.

We ask your Honors to note that of a part of the extraneous matter cited in the brief for the United States, the so-called "Joint Report by the War and Navy Departments Concerning the Relation of Patent Licenses and Royalties to War Procurement," the Secretary of War, in a letter of June 5, 1946, long after the first argument in this case, said: "The data used in the preparation of this report were originally compiled by the War and Navy Departments at the request of the Justice Department for use in connection with litigation then

pending." In footnote 1 to the report it is said: "Representatives of the War, Navy and Justice Departments, working together, then prepared a summary analyzing and discussing these data."

If we had worked with our client while this case was pending in this Court in preparing a summary analyzing and discussing data not in the record and had attempted to make use of the summary as a self-serving declaration in our brief, we should not expect the brief to be given any consideration.

It is irrelevant, in determining the justice of the cause between the petitioner and the Government, to show that hundreds of millions of dollars will be saved to the Government if the Act which takes the petitioner's royalties is sustained. The petitioner is either right or wrong, regardless of the estimated benefit to the United States. But if all the savings included in the Government's estimate of the results of the Act in anonymous cases, which we have no means of checking, should be covered into the Treasury of the United States by orders like that issued in the case at bar, would not the confiscation of the contract rights to these royalties be so apparent that the Court could have no doubt that just compensation for the taking of the rights had been denied? And if the royalties involved are of such magnitude, will not the Government obtain all the money that it needs, and in fairness can collect, by the income and profits taxes on these royalties, leaving to the licensors the benefit of the remnants of their honest earnings after the taxes thereon have been paid? So would Congress "promote the progress of science and useful

arts" in fields of interest to the Government by securing to inventors an inducement to their continued activity in those fields.

Respectfully submitted,

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SUPREME COURT OF THE UNITED STATES

No. 11.—October Term, 1946.

Alma Motor Company, Petitioner, v. The Timken-Detroit Axle Company and the United States of America, Respondents.	On Writ of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

[December 9, 1946.]

The Chief Justice delivered the opinion of the Court.

Certiorari was granted in this case February 5, 1945, on a petition addressed to the question of the constitutionality of the Royalty Adjustment Act of October 31, 1942,[1] and of Royalty Adjustment Order No. W–3, issued by the War Department July 28, 1943. We find now, however, that the Circuit Court of Appeals had before it, not only the constitutional question, which was decided, but also a non-constitutional question, which might properly have alone served as an adequate ground on which to dispose of the appeal. This non-constitutional question was neither considered nor decided by the court below, nor argued here. We have concluded, therefore, that we should not pass on the constitutional question at this time, but should vacate the judgment of the Circuit Court of Appeals, and remand the case to it for decision of any non-constitutional issues material to the appeal.

To explain the reasons for this conclusion, we must state the history of the present proceedings in some detail.

They were begun by a complaint in a District Court filed by respondent, The Timken-Detroit Axle Company, against petitioner, Alma Motor Company, asking a declaratory judgment as to their respective rights under a patent held by Alma and a coextensive license from Alma

[1] 56 Stat. 1013, 35 U. S. C. Supp. V, §§ 89–96.

to Timken. The complaint alleged the existence of the patent, purporting to cover certain "transfer cases", or auxiliary automotive transmissions, and the license, by which Timken was authorized to manufacture the patented articles and required to pay certain specified royalties. It further alleged that Timken was engaged in manufacturing various designs of transfer cases, that some of these were once believed to have been covered by Alma's patent and had been made the subject of royalty payments, but on the basis of later information Timken had concluded that none of them were covered, and that the patent was invalid. It asked for a judgment confirming this conclusion.

Alma answered, claiming that all Timken's transfer cases were covered, that the patent was valid, and that Timken was estopped from challenging validity, and counterclaimed for a money judgment for unpaid royalties.

Following a trial, the District Court filed findings and an opinion,[2] and entered judgment December 2, 1942. It held Timken estopped from challenging the validity of Alma's patent; that certain specified types of Timken's transfer cases (generally those denominated T–32 and T–43) were covered by the patent and license; that Timken was indebted to Alma for royalties thereon; and that other types (generally those denominated T–79), were outside the patent and license. The court indicated that unless the parties could agree on the amount of the royalties so held to be payable, a special master would be appointed to determine the amount.

Shortly before this judgment was entered, Congress enacted the Royalty Adjustment Act, which Alma seeks to attack here. The primary purpose of this Act was to reduce royalties for which the United States was ulti-

[2] *Timken-Detroit Axle Co.* v. *Alma Motor Co.*, 47 F. Supp. 582 (D. Del. 1942).

mately liable on inventions manufactured for it by a licensee, from pre-war rates to rates appropriate to the volume of production in war-time. Whenever during the war a government contractor manufactured under a license, and the royalties seemed excessive to the head of the department concerned, the latter was empowered to stop payments by notice to the licensor and licensee, and after a hearing, to fix by order "fair and just" royalties, "taking into account the conditions of war-time production."[3] Thereafter, the licensor could collect royalties from the licensee only at the rate so determined. If the licensor felt that the reduction was unfair, his remedy was by suit against the United States in the Court of Claims, where he could recover "fair and just compensation . . . taking into account the conditions of war-time production."[4] Whatever reduction was effected by the order was to inure to the benefit of the United States.

The notice, stopping payment of royalties from Timken to Alma, was issued by the War Department December 30, 1942. Royalty Adjustment Order No. W–3 followed on July 28, 1943, fixing a "fair and just" royalty at zero. The basis of this determination was the alleged invalidity of Alma's patent, which the United States claims that the Act permits it to assert.[5]

In the meantime, Alma had taken an appeal from Paragraph 5 of the judgment of the District Court, which held that the T–79 transfer cases were outside the patent. Timken did not appeal. After the Order was promulgated, Timken moved to dismiss the appeal and remand to the District Court with directions to vacate its judgment. The motion was predicated on an affidavit that Timken had manufactured transfer cases for the United States alone, together with the argument that the operation of the Act

[3] 35 U. S. C. Supp. V, § 89.
[4] 35 U. S. C. Supp. V, § 90.
[5] 35 U. S. C. Supp. V, § 90.

and Order transferred jurisdiction of the subject matter of the entire case to the Court of Claims. Alma countered with an attack on the constitutionality of the Act and Order, primarily as working a deprivation of property in contravention of the Fifth Amendment.

The United States had at this time already submitted an *amicus* brief, in which it argued that the Order had made the appeal moot; and when Alma's constitutional attack was filed, the United States intervened in support of the Act and Order.

In its opinion [6] the Circuit Court of Appeals considered that the question of the applicability of the Act and Order in this case was simply a question of their constitutional validity. It proceeded to consider this latter question, and decided that both the Act and the Order were entirely valid. Accordingly, it entered the following order:

> ". . . it is now here ordered and adjudged by this Court that Paragraph 5 of the judgment of the said District Court in this case be, and the same is hereby vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justicable controversy again [7] exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot."

The War Department notice was issued after the District Court's judgment, but before appeal was filed in the Circuit Court of Appeals. It appears that at no time did any party urge on the Circuit Court of Appeals or did that court pass on the question whether the T–79 transfer cases were covered by Alma's patent and license. Indeed, it

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[6] *Timken-Detroit Axle Co.* v. *Alma Motor Co.* (United States, Intervenor), 144 F. (2d) 714 (CCA 3, 1944).

[7] The word "again" was deleted by an order of October 2, 1944.

was not until after we had granted certiorari and heard argument at the October 1944 term on the constitutional question, and set the case down for further argument this term, that the United States pointed to this omission, and suggested that the Circuit Court of Appeals should have avoided the question of constitutionality by first considering the question of coverage. It argued here that the prior determination of any non-constitutional questions which might dispose of a controversy is a practice which is dictated by sound principles of judicial administration. It moved to vacate the judgment of the Circuit Court of Appeals, and to remand the case to it for such determination. Both Alma and Timken opposed the motion. Action was withheld pending argument on the motion and the case itself.

This Court has said repeatedly that it ought not pass on the constitutionality of an act of Congress unless such adjudication is unavoidable. This is true even though the question is properly presented by the record. If two questions are raised, one of non-constitutional and the other of constitutional nature, and a decision of the non-constitutional question would make unnecessary a decision of the constitutional question, the former will be decided.[8] This same rule should guide the lower courts as well as this one. We believe that the structure of the problems before the Circuit Court of Appeals required the application of the rule to this case.

At the outset that court was confronted with the merits of the appeal, which involved simply the coverage by the patent and license of the T–79 transfer cases. Later, however, it was confronted also with a problem of jurisdictional nature. This involved the effect wrought by the Act and

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[8] *Siler* v. *Louisville & Nashville R. Co.*, 213 U. S. 175, 193; *Light* v. *United States*, 220 U. S. 523, 538; *Spector Motor Co.* v. *McLaughlin*, 323 U. S. 101, 105. See Brandeis, J., concurring in *Ashwander* v. *Tennessee Valley Authority*, 297 U. S. 288, 347.

Order on its power to proceed to an adjudication on the merits. If for any reason, the Act and Order had no applicability in the case, the court should proceed to the merits. If, however, they were controlling, Alma was relegated to its statutory remedy against the United States, and the court would be required to dismiss the appeal, and to vacate Paragraph 5 of the judgment in the District Court.

In the determination of this jurisdictional problem, we are of the opinion that the Circuit Court of Appeals erred. It assumed that this problem involved only the question of the constitutionality of the Act and Order. But the Act and Order, whether or not constitutional, do not control the disposition of this case unless they were intended to apply to it. The question of their applicability is a non-constitutional question, the decision of which might have made unnecessary any consideration of constitutionality.

Were the Act and Order intended to apply? Their terms seem to make that depend upon whether the subject-matter of the appeal—the T–79 transfer cases—were covered by the patent and license. The Act provides that it is only "whenever an invention . . . shall be manufactured . . . for the United States, *with license from the owner thereof* . . ." and the department head believes the stipulated royalties to be unreasonable, that the latter shall give "written notice of such fact to the licensor and licensee." It is only after such notice that the department head may fix "fair and just" royalties, and only "such licensee" who is forbidden to pay additional amounts as royalties, and only "such licensor" who is relegated to the Court of Claims.[9] Conversely, if the putative invention is manufactured without license, or if the putative patentee is not actually the owner, these powers and disabilities do not arise. Even Order No. W–3 does not refer to T–79 trans-

[9] 35 U. S. C. Supp. V, § 89.

fer cases as such. It forbids the payment of royalties only on transfer cases "under" this license, or any license pursuant to this patent "which embody . . . the . . . alleged inventions." Again, if the T–79s are not "under" the Alma-Timken license, or if they do not "embody" Alma's patented claim, then the Order expressly leaves Alma's and Timken's rights and remedies unaffected.

Consequently, coverage of the T–79s, as well as constitutionality of the Act and Order, was a crucial issue in deciding the jurisdiction of the Circuit Court of Appeals. If they are covered, the Act and Order apply, and it was then necessary to decide constitutionality in order to determine whether the court could proceed to a judgment on the merits. If the T–79s are not covered, the Act and Order manifestly do not apply, and the court could proceed to a judgment on the merits, whether the Act and Order are constitutional or not. In that event, of course, no constitutional question would be decided.

The Circuit Court of Appeals may have thought that the applicability of the Act and Order turn not on actual coverage, but on a claim of coverage, and hence that applicability was undisputed and only constitutionality was pertinent to jurisdiction in this case. Such construction is said to have some support in cases like *Smithers* v. *Smith*, 204 U. S. 632, and *Bell* v. *Hood*, 328 U. S. —, in which bona fide claims of rights were held to satisfy jurisdictional requirements as to the amount in controversy and as to the existence of a certain federal question, regardless of whether such claims would ultimately be established.

The answer to this argument is that the statutory language [10] which controlled the cited cases expressly refers to the claim as the test of jurisdiction, whereas, as we have

[10] "The district courts shall have original jurisdiction . . . where the *matter in controversy* exceeds . . . the sum or value of $3,000 and (a) arises under the constitution or laws of the United States. . . ." 28 U. S. C. § 41.

shown, the instant Act refers to the objective event. Furthermore, the test in t' *Smithers* and *Bell* cases, *supra*, is a condition prece to the exercise of jurisdiction. Unless such exer e is made to turn on what the plaintiff rather than what the court says is at stake, the court's jurisdictional ruling will often deny the plaintiff a forum when a full hearing might later have shown a right to relief. The test in this case, on the other hand, is a condition subsequent, in certain instances depriving the court of jurisdiction, and the same danger is not present.

Timken contends that the jurisdiction of all suits with respect to inventions manufactured for the United States in war-time is transferred to the Court of Claims, and that the coverage question is immaterial. It argues that where the Royalty Adjustment Act does not accomplish this transfer because the manufacture is not by a licensee, the Act of June 25, 1910, as amended,[11] should apply, and that it has the same effect. It is said, therefore, that the case should have been dismissed whether there was coverage or not, and that the Circuit Court of Appeals properly refrained from deciding that question.

Assuming the premise is correct, we do not reach the same conclusion. Dismissal can be ordered under the 1910 Act, if it applies, without deciding any constitutional questions, for that Act has already been before this Court and been approved.[12] To order dismissal under the 1942 Act,

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[11] Act of June 25, 1910, as amended by the Act of July 1, 1918, 36 Stat. 851, 40 Stat. 705, 35 U. S. C. § 68, provides in part: "Whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. . . ."

[12] *Crozier* v. *Krupp*, 224 U. S. 290; *Richmond Screw Anchor Co.* v. *United States*, 275 U. S. 331.

however, or under one of the two Acts alternatively, requires a determination of the constitutionality of the latter. As we have already indicated, this is sufficient reason for first deciding which Act impels the transfer.

It is true that § 2 of the Royalty Adjustment Act provides that if the licensor sues in the Court of Claims the United States "may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise." [13] We deem it clear that such defenses would include questions of coverage as well as validity of a patent. But we do not think that § 2 reflects a decision by Congress that all suits involving licenses under the Act and presenting questions of coverage or validity should be tried in the Court of Claims. As respects the problem with which we are now concerned, § 2 does no more than to make available such defenses in the Court of Claims whenever the suits authorized by the Act are brought there.

Both Alma and Timken maintain that the constitutional question could not be avoided by the Circuit Court of Appeals, because the T–32 and T–43 transfer cases were covered, if the T–79s were not, and were therefore necessarily subject to the Order. Indeed, the District Court decided that they were covered, and Timken did not appeal.

This point carries its own refutation. Neither party appealed from the adjudication as to the T–32 and T–43 transfer cases. No claim as to them was before the Circuit Court of Appeals. There is no claim now that a litigant may not appeal from part of a judgment, or that an

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[13] Section 2 provides in full:

"Any licensor aggrieved by an order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the

appeal from part brings up the whole."[14] The Circuit Court of Appeals was not properly concerned with their coverage, or with the applicability to them of the Act or Order. Therefore, the part of its order affecting T–32s and T–43s was unwarranted, and should not now be made the basis for approving a constitutional decision which was otherwise unnecessary.

Alma objects strenuously to the Government "mending its hold" between the time it urged dismissal in an *amicus* brief in the Circuit Court of Appeals and argued constitutionality there and here, and the time it filed here its motion to vacate and remand. The Government certainly aided and abetted the Circuit Court of Appeals in its error. But Alma is not without fault in creating the confusion. In its "Petition to Review" the Order, Alma asked the Circuit Court of Appeals to hold the Order unconstitutional. In its petition to the Circuit Court of Appeals for rehearing, it argued that the court should not have passed on constitutionality because Timken had not charged any royalties to the United States on T–79s, and the Act and Order were allegedly inapplicable. Before this Court it has returned to its original position.

We agree that much time has been wasted by the earlier failure of the parties to indicate, or the Circuit Court of

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United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise."

[14] Rule 73 (b) of the Federal Rules of Civil Procedure provides that the "notice of appeal . . . shall designate the judgment or part thereof appealed from. . . ."

Appeals or this Court to see, the course which should have been followed. This, however, is no reason to continue now on the wrong course. The principle of avoiding constitutional questions is one which was conceived out of considerations of sound judicial administration. It is a traditional policy of our courts.[15]

The judgment is vacated and the case remanded for further proceedings in conformity with this opinion.

[15] *Charles River Bridge* v. *Warren Bridge*, 11 Pet. 425, 553 (1837).